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and BUSINESS ANALYST

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THE MAGAZINE OF WALL STREET

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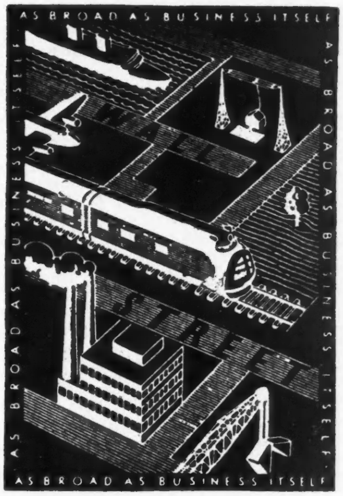


The Trend of Events

BLOW TO FREE ENTERPRISE . . . In our battle against inflation, the most efficient weapon—lower prices—is used altogether too sparingly, if at all. Daily we read of new price advances but rarely indeed of price reductions despite continued high business volume and record earnings in many industries. Isolated efforts to hold the price line have been far from successful. Instead we frequently are faced with exaggerated price increases, substantially out of line with the increased costs which precipitated them; in other words, price increases that are by no means needed to keep companies or industries in sound financial condition. The result is a spiraling of prices all along the line, a vicious circle that, if continued, will ultimately end up in a bust that may well match in proportion the boom we now enjoy.

In the mind of the public, excessive business profits and constantly sky-rocketing prices do not make a logical combination, to say the least. Quite understandably it creates the impression that prices could well be reduced and yet leave highly satisfactory earnings. It shows that there must be far more leeway for price cuts than generally supposed.

The overall problem goes deeper, however. To ask for higher prices and therefore still higher profits is to ignore the well-tested principle of sharing with the consumer the reward of progress and prosperity. Abandonment of this principle will strike a blow at the cause of free enterprise from which it would be difficult to recover. Unnecessarily perpetuating the price-wage spiral will furnish grist for labor's mill. It will also furnish ammunition for certain politicians who are only too anxious to prove that the Government should protect the consumer from big business by resort to far-reaching business controls.

No one questions the right of business to fair and adequate profits, taking into consideration the needs and uncertainties of our times. But, it seems to us, the moment has also come where adoption of really constructive pricing policies is the all-important key to our future. Labor shares with business the responsibility that this implies. Business by all means should try to hold the price line wherever possible. At this stage, being content with adequate profits rather than attempting to ride the crest of the price wave appears the only sensible policy. Any other course is bound to lead to serious trouble and may do irreparable harm to the prestige of American business.

WEATHER AND AUSTERITY . . . Despite a good deal of confusion in Washington, the initial response to the President's "Save-Food" campaign has been en-encouraging, with the public by and large falling willingly into line. No great sacrifices have been demanded and success of the compaign can be considered well within the realm of probability. Doubtless the only practical method of carrying out the program was through a combination of voluntary self-denial and restriction of some producer users of grain. By thus reducing domestic consumption, the goal of meeting crucial foreign needs—at least over the short-term—may be achieved without undue hardship to anyone.

It may be somewhat different when the time comes to face the equally important longer range food problem. Weather, more than any other factor, will be the all-important key to the size of the problem as well as the methods that may have to be employed to meet it. In a world short of food,

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907 — *"Over Forty Years of Service"* — 1947

drought or unfavorable crop weather in the U.S. next year might well force more drastic measures. Austerity, as some punsters put it, may yet be around the corner. For short crops next year would spell still higher food prices, new inflationary pressures, possibly even return of price and ration control. Good crops would mean easing food shortages, declining prices, no likelihood of controls. Instead of austerity, it would mean abundance or at least adequate supplies. Weather, in short, may become the big determining factor shaping the trend of prices, living costs, wages next year. Poor weather could cause real trouble—bigger instead of smaller problems in Europe. Let's hope that in spite of the seven years of bumper crops we have had, the weather will continue cooperative.

TAX REDUCTION AND THE MARSHALL PLAN . . . Despite this year's unsuccessful attempts at lowering taxes, tax reduction continues to be a lively issue and will become more so as we approach next year's elections. Though the Marshall program will impose large demands on Government revenues, it is unlikely that the Administration can avoid the necessity of offering something to counteract Republican pledges to lighten the tax load. It appears that Administration thinking on taxes starts from the Marshall plan and from considerations directly tied in with present inflationary trends. But since Congress is not likely to approve appropriations for foreign aid in the current fiscal year that would absorb more than a part of the indicated budget surplus of $4.7 billion, the impression now is that the outlook for tax reduction is brightening. With tax receipts continuing high, the Administration may well reverse its stand and propose at least moderate cuts when Congress reconvenes.

The close connection between tax reduction and foreign aid expenditures is obvious, with the amount of the latter, and how it is to be financed, the foremost consideration. To make possible lower taxes without encroaching on the foreign aid program, it has been suggested that such outlays be carried as extra-budgetary relief. This suggestion finds little favor in Administration quarters where a steady weather eye is kept on the inflationary situation, and extra-budgetary financing would of course be inflationary. Yet it may be resorted to, should political expediency force active consideration of fairly substantial tax cuts as well as relatively large foreign outlays. The way it looks now, Congressional approval of the Marshall program may be easiest obtained by an arrangement that also foresees tax reduction, preferably within the framework of a balanced budget. While many Administration leaders remain skeptical about the feasibility of lowering taxes, they may be forced to it if the Marshall plan cannot be put over in any other way. The fact that a national election is approaching makes such a development so much more probable.

BRITISH GOLD . . . Great Britain's financial dilemma apparently is headed for a solution much sooner than many expected, certainly in shorter order than the Marshall program can be placed into practical operation. Evidence of this lies in the British arrangement for a $320 million gold loan from South Africa, a distinct gain for Britain's gold reserve and carrying the lowest interest rate ever recorded for such a transaction, one half of one percent. The gold loan will help set up immediately a better trade balance for Britain with the dollar area. More noteworthy, it should spell a change in the "scare talk" that London has been disseminating for the last few months and which, it may be assumed, was primarily for home consumption.

It has also been reported that South Africa will pay for British goods in gold and will accept sterling for her own exports, assuring Britain of a continuing inflow of the yellow metal. But entirely aside from England's improved position as a result of this transaction, we here are directly interested in it in other ways. In the first place, it is safe to assume that most if not all of this gold will ultimately find its way to the United States, in payment for our goods. Should some of it go to Argentina, as it well may, that country is likely to resell it to us. All this means that our gold stocks will grow at an accelerated rate—possibly faster than anticipated by our monetary authorities, and this increase will have a direct effect on our own monetary position. It will swell our already enormous credit base, thereby making for further inflationary pressure, as explained in our article on bank credit expansion elsewhere in this issue.

The perhaps brightest side of the South African gold transaction is, however, that it points to a more practical approach by Great Britain to her problems, both financial and economic, with less stress placed on the acute need of help from the U.S.

CAPITAL MARKET . . . Recent developments in the capital market tend to bring into question the adequacy of current savings to finance the private capital expansion now being planned by industry and currently running at an annual rate of some $16 billion. It has been apparent for some time that accumulation of funds available for investment is slowing down. On the other hand the demand for such funds notably for venture capital, is rapidly expanding. The two trends indicate that the supply of new investments exceeds the current demand for them; interest rates as a result have been firming.

It would be premature to conclude that we are headed for a shortage of funds for capital investment that might actually cut short our present business boom. Corporate liquid assets are still high and business might prefer to draw upon them rather than curtail needed capital expenditures, should financing become more difficult. But the most effective way to cope with the situation is to stimulate individual investment in securities, now held back by high income taxes, the capital gains tax and double taxation of corporate income used to pay dividends. On all this, we shall have more to say in our next issue.

The present situation contrasts strangely with the plethora of investment funds available until quite recently when banks and insurance companies were eagerly bidding for new investments in an effort to keep their funds fully employed, when interest rates were at historic lows. Recent softness in the bond market attests to the change in conditions that has occurred.

As I See It!

BY ROBERT GUISE

MR. BYRNES SPEAKS FRANKLY

Former Secretary of State James F. Byrnes in his much-discussed book "Speaking Frankly" makes it plain that he has not lost hope that peace can be restored and maintained, that he believes that the United Nations still remain, and properly used will remain, the best instrument for peace.

However, his belief is based not on vague optimism that the Soviet-American deadlock, somehow, may yet be broken. Rather it is founded on application of a principle, the acceptance of which may ultimately become the decisive factor in making the United Nations a successful weapon for peace.

"THE PICKET"

Knott in the Dallas News

This principle, basic to Mr. Byrnes' approach to the entire peace question following his disappointing experiences with Russian diplomacy, rests on the premise that when a nation signed the United Nations Charter as both we and Russia did, she obligates herself to support certain purposes and principles inside and outside the United Nations, and that her obligation to fulfill these pledges remains unaffected by any veto that might be cast by Russia or any other nation. Among the obligations assumed under the U.N. Charter is the pledge "to unite our strength and maintain international peace and security" and "to take effective collective measures for the prevention and removal of threats to peace." In his book, Mr. Byrnes observes that a veto by one member does not relieve the others of these obligations . . . "that these are pledges we must be prepared to fulfill."

It is at once apparent that this interpretation poses a far-reaching fundamental question, for if the member nations really accept the clearly implied obligations under the Charter to take effective action outside the United Nations against an aggressor, the veto would not really be important if it came to a showdown. The power of the veto, in fact, could be broken without vitiating the U.N. as an effective world security organization, on the premise that the signatories of the U.N. Charter undertook an obligation not only to the Charter but to each other. Even withdrawal of Russia from the United Nations would not make the slightest difference.

Thus when Mr. Byrnes, as he did in his book, urges a showdown with Russia over Eastern Germany, examination of the legal aspects of the Charter becomes of primary importance. In his view, Russia, having accepted the Charter, cannot legally abrogate her obligations under the Charter merely by resorting to the veto. While Russia's right to veto any measures proposed against her remains unquestioned, not only the right but the **obligation** of the other nations to act in defense of U.N. principles would be clear. Mr. Byrnes hopes that the Soviet leaders will never force joint U.N. action against Russia—as a last resort. But he feels, emphatically, that "they must learn what Hitler learned —that the world is not going to permit one nation to veto peace on earth."

The right of U.N. member nations to take effective collective action against an "aggressor," after a veto is cast, is expressly guaranteed in the Charter. Mr. Byrnes goes a step further when he postulates with great logic that they have not only the right but the obligation to act, and that until the U.N. members accept this obligation clearly, the United Nations cannot succeed.

The later is all too true. Without the strongest support for the United Nations, without putting a halt to the present drift of affairs that bid fair to strangle the world organization, there is not much hope for peace. Latest developments furnish ample proof. The U.S.A. has put forward a plan for strengthening the prestige and enlarging the activities of the U.N. General (*Please turn to page* 110)

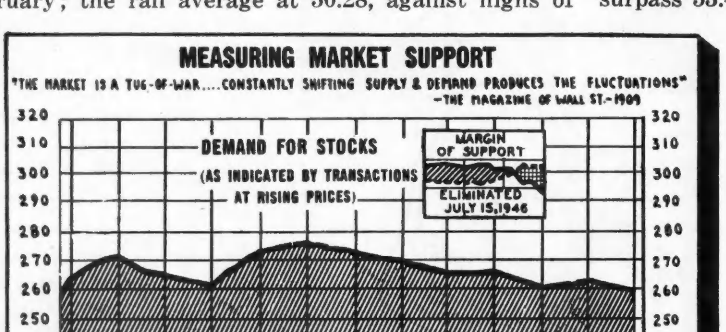
New Currents Swaying Market Action

Recent and current market action promises further rise, testing and perhaps surpassing the key July recovery highs. Foreign selling should not be a decisive factor. The news on business, earnings and dividends will remain favorable over the medium term at least. Continue to hold the substantially invested positions previously recommended.

By A. T. MILLER

Market action has been decidedly encouraging since our last previous analysis was written, and especially during the last week. It implies an early and close test of the July recovery highs in the daily industrial and rail averages. Whether those levels will be surpassed cannot, of course, be predicted with any degree of assurance. We believe there is at least a fairly good chance that they will be before this phase is over. As there is undoubtedly a considerable amount of stock for sale around the old highs, it might, at best, take some time and repeated tries to plough through these offerings. If the effort fails, which would mean that we are in a top area now, the chances are that it will be a rounding top, allowing a fair amount of time for some precautionary selling, rather than a fast one.

The close of last Saturday, October 18, left the Dow-Jones industrial average at 184.25, compared with highs of 186.85 in July and 184.49 last February; the rail average at 50.28, against highs of 51.63 in July and 53.42 in February. (Firmness has continued up to our press time.) What does a clear-cut "break-through" require and what would be its significance? Because of divergence in these averages at the year's highs and lows to date, Dow-Theory analysts will disagree on the interpretation. Some would view a rise by both averages above their July highs as a bull-market "signal." Others demand that rails top their highest previous high (that of last February) and say that would be the "signal" if industrials were also above their February high, which is only a small fraction from the present level. In this view the July high in industrials is not the reference point. Suffice it to say that there will be no basis for argument—and that all those who use a Dow-Theory approach, or any similar method, in their market operations will be bullish—if both averages should top all of their previous 1947 highs, which means if industrials better 186.85 and rails surpass 53.42. The distance from here is not much, but could be formidable, especially in the case of the rails.



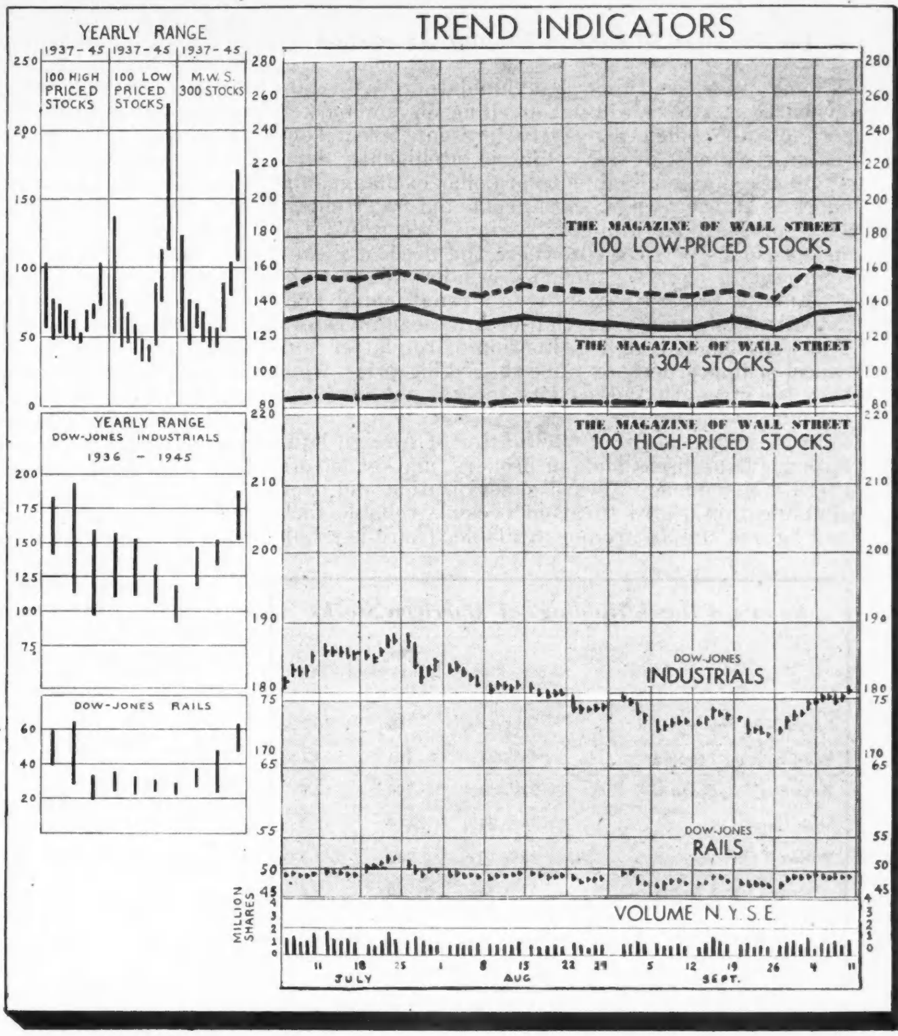
A New Bull Market?

Assuming these requirements are met, would it assure a sustained and wide advance in stock prices? Not necessarily. There have been some instances in which this kind of bull-market indication was followed by relatively limited further advance. For that matter, no technical method (or any other) can hope to forecast the extent of rise or decline in stock prices. The most that can be attempted is to determine the probable direction of the general trend, and investors do not need to be told that there is plenty of margin for error in this alone. Nevertheless, it must be added that a majority of the clear-cut Dow-theory bull-market "signals" have been followed by additional advances ranging from substantial to major.

Forgetting all about Dow Theory, you would still have to sit up, take notice and open your mind if any set of reasonably representative market averages or indexes went cleanly into new high ground after wallowing around, as in the present instance, in a limited trading range for a year or

more. For our part—having for some time advocated not less than 75% invested positions—we would not go overboard in bullish enthusiasm, given such a development; but we would certainly "string along" with the hopeful side until we saw convincing reason to veer from it.

So far as the recent internal evidence is concerned, there are several things worth commenting upon. First, in the strongest sessions last week the volume of transactions was larger than had been seen at any time during the large May-July recovery. That might, of course, have been a "fluke," but it seems improbable. Rather, it suggests a considerable—perhaps really significant—revival in speculative and investment interest in the market. Second, the quality of leadership on the rise has been satisfactory; and strength, while less than general, has been fairly widely diffused through the list. Third, individual stocks are responding to good news on earnings and dividends more readily and vigorously than in a long time. Fourth, profit-taking pauses continue so far to be accompanied by a shrinkage in trading volume. Fifth, the market "weather reports" provided by our Support Indicator, as herewith charted, continue to read: "Clear skies." This can change, at times quickly; but it has not changed, nor yet shown even tentative indications of deterioration in the favorable relationship between the overall demand for stocks and the supply thereof.



The Fourth Quarter Environment

In the general environment we do not see anything which threatens to disturb investment sentiment unduly for the rest of this year. The market has already digested the European crisis, as now known; and is unlikely to be distracted by Communist moves short of armed action. The continuing commodity price inflation is not liked, and carries seeds of trouble on various counts. It is fuel for more wage demands; it aggravates economic maladjustment; and rising food costs must necessarily cut some of the demand for less essential items. Nevertheless, the overall-tendency in the economy is expansionist, probably will continue so for this quarter, and might continue so well into 1948.

There is an abundance of factual support for that last statement—too much to be detailed here. Most weekly indexes of production, or business activity, have pushed on to new postwar highs. The August data on inventories, and the week-to-week commercial bank loan statistics, tell a story not only of continuing inventory accumulation but of considerable acceleration therein. Retail trade will find it hard to top year-ago figures significantly but has continued high enough to catch many merchants inadequately stocked. Exports, while down from the peak, have levelled for the present at a generally high point. Business expenditures for new plant and equipment continue at about peak levels. The vitally important building statistics continue to make excellent reading.

Third quarter earnings reports, now beginning to come out, will be satisfactory to excellent in most lines. The fourth quarter dividend declarations will be the most generous since 1929 and might conceivably top all previous levels for this period. In short, the market has no lack of visible fodder to feed on; and as we have noted earlier in this discussion, individual stocks have shown ability to respond. Enough such instances in the weeks ahead could influence at least the industrial average appreciably. On the other hand, it has to be recognized that rail stocks will get no comparable stimulation from specific earnings-dividend news. If they make the grade, it probably would be on a more general speculative

impulse making for a fairly broad market advance.

The Question Of Foreign Security Liquidation

Some observers think that liquidation of foreign-owned U. S. stocks will put a ceiling on our market, perhaps not much above the present level. They reason that most of this selling is intelligently done, to get the maximum amount of dollar exchange, and hence is all the more likely to come out on strength, as at present. They might be right. We think it is an open question. Except where the need of dollars is urgent in point of time, we wonder whether the reaction of foreign owners to a strengthening market will differ much from that of American investors. The well-demonstrated inclination of the latter is to cancel selling orders, or raise the asking price, when they see strength and activity such as obtained during much of last week.

In most discussion of the matter of foreign liquidation, in the press and in brokers' market letters, there is a tendency toward generalization and over-simplification—hard to avoid because reliable facts and figures simply are not available. There is no up-to-date inventory of the dollar value, or total shares, of listed U. S. stocks held in each foreign country—much less identification of the stocks. Where governments have moved to take over marketable U. S. securities of their nationals for conversion into dollar exchange, as in France, they are revealing virtually nothing of the details.

Reported Dutch Holdings of American Stocks

	Price Range 1947	No. of Shares Held (Thous.)	% of Total Issue
Kansas City Southern Pfd.	58½-47¼	55	26.2%
Mid-Continent Petroleum	45⅝-33	263	14.2
Tidewater Associated Oil	22¼-18	798	12.5
Shell Union Oil	34 -24¼	1,619	12.0
Wilson & Co.	15⅞-10⅝	243	11.5
American Car & Foundry	54⅞-36	55	9.2
Missouri-Kansas-Texas	8 - 3⅜	72	8.9
Republic Steel	30⅞-22½	498	8.8
Anaconda Copper	42 -30⅞	683	7.9
Bethlehem Steel	99 -76½	203	6.8
Illinois Central	30 -18⅛	82	6.0
Cities Service	39¾-23¼	220	5.9
American Car & Foundry Pfd.	115¼-94	14	4.8
Standard Brands	37½-26½	141	4.4
Baltimore & Ohio	16⅝- 7⅝	106	4.1
U. S. Steel	79⅜-61⅝	323	3.7
Continental Oil	48⅞-35	161	3.4
American Water Works	18⅞-12	77	3.3
American Smelting	65¼-48½	71	3.2
Kennecott Copper	52½-41¼	325	3.0
Union Pacific	147 -120	59	2.7
Phillips Petroleum	62¾-50½	116	2.4
Southern Pacific	47¼-34½	90	2.4
North American Co.	33⅞-22⅞	186	2.2
Atchison	99 -66	38	1.6
Commonwealth & Southern	4 - 2¼	538	1.6
Goodyear Tire & Rubber	61⅜-41½	22	1.1
Colgate-Palmolive-Peet	56 -33	19	1.0

A recent study by the Department of Commerce puts total foreign-owned U. S. stocks and bonds at $3.7 billion, but did not break it down by countries, or as between stocks and bonds, or as between listed and unlisted securities. A June, 1941, Treasury census of such holdings put the total at $2.7, of which slightly over $1.8 billion was in common stocks (presumably both unlisted and listed), $306 million in preferred stock, $219 million in corporate bonds, and the balance in Government, state and municipal bonds. Working from those figures and allowing for subsequent rise in market prices, the Federal Reserve Bank of New York estimated, in September, that these holdings now amount to $3.5 billion. Probably the division, by types of securities, differs little from that of 1941. The bank places $2.1 billion in European hands, $600 million in Canada, the rest scattered over the world. It states that the United Kingdom holds over $600 million; Switzerland, which has no exchange problem, less than $600 million; the Netherlands over $400 million; France about $250 million.

In 1941 the British took over and pledged $288,000,000 of American securities with the R. F. C. for a $200 million loan. This collateral now has a value well over $800 million. It could be used for an additional loan, but no moves in that direction are known. The British did not requisition all U. S. securities at that time, nor have they done so since. How much is still privately held is not known. It may be sizable.

Dutch holdings of "assets" convertible into dollars were officially estimated at $561 million last February, exclusive of $315 million of Shell Union Oil, the controlling interest, held by Batavian Petroleum for Royal Dutch Shell. It is not known how much of the $561 million was in listed common stocks. The Dutch are believed to be carefully selling at a rate of over $100 million a year. The accompanying table of chief Dutch holdings in listed stocks is from semi-official sources but not up to date. Probably a good many of the holdings have been pared down some since it was compiled, but it unquestionably indicates the issues most heavily held, in general order of importance with respect to capitalization.

And now a word of caution. Some of these stocks will rise despite Dutch selling, others can fall for reasons having nothing to do with Dutch selling. Twelve out of the 28 recently either made new highs for the year or rose close to former highs. The three oils, near the top of the list in percentage of capitalization held abroad, have performed this year just as well as the oil group generally. Two of them—Mid-Continent and Tidewater Associated — have fared better than the oil group. Late last week, on an average price basis, the 28 stocks were about 24% over their 1947 low, about 9% under their 1947 high. The Magazine of Wall Street index of 304 stocks ended the week about 24% over its low for this year, and 7% under its high. Since the Dutch are probably the most active foreign sellers, these comparisons suggest that the fear of foreign liquidation might easily be exaggerated as a market factor.

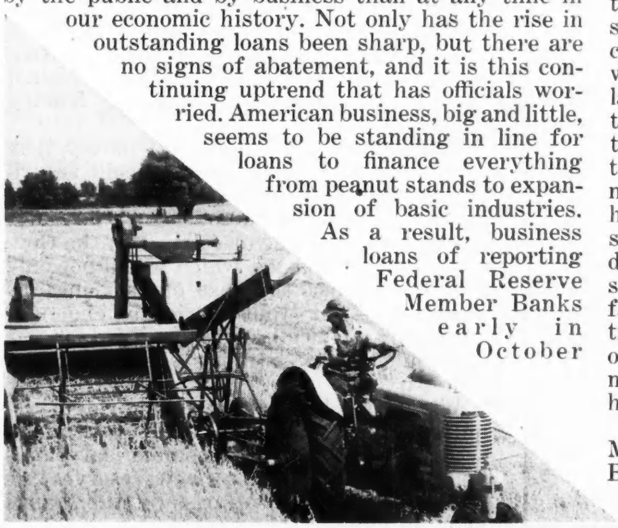
—Monday, October 20.

The Problem of .... Over Expanding POST WAR CREDIT

By E. A. KRAUSS

Credit expansion is an important force in our inflationary environment today and since such expansion has been extremely marked, it is little wonder that danger signals are being raised. The tremendous rise since the war's end in business loans has led to a spate of warnings and official suggestions that banks "go easy" in their lending policies so as to avoid further inflationary pressure, and to maintain their strong and liquid position against the day when the economic sledding gets rougher. As borrowings reach new highs, an ever closer check is being kept on bank credit.

Indubitably, more money is being borrowed today by the public and by business than at any time in our economic history. Not only has the rise in outstanding loans been sharp, but there are no signs of abatement, and it is this continuing uptrend that has officials worried. American business, big and little, seems to be standing in line for loans to finance everything from peanut stands to expansion of basic industries. As a result, business loans of reporting Federal Reserve Member Banks early in October crossed the $13 billion mark. Each week brings a new historic high for "commercial, industrial and agricultural loans" which on October 1 were $2,936 million above the previous year's level.



Outstanding loans of all insured commercial banks are considerably higher, of course; at mid-year they stood at over $33 billion. Detailed figures and increases over mid-1946 and the end of 1945, shown in the accompanying table, illustrate the enormous burst of lending-borrowing activities since the war's end.

It stands to reason that this flourishing lending activity is having repercussions on our banking system, even on our entire economy. Interest rates have been creeping upwards and the trend is likely to continue. Above all, it has created fears of a runaway inflation, should the lending situation get out of hand.

Why Business Loans Have Expanded

For the present, banking and business circles are not alarmed at either the high total of business loans or the big rise in consumer credit obligations, though they admit that they can reach a point where they can become a serious problem. For one, consumer borrowings are hardly out of line with income; the latter since 1939 has more than doubled while outstanding credit obligations are only 39% larger. Soaring business loans in turn have reflected the needs for funds to finance inventories, to extend trade credit, to bolster working capital generally and to defray the cost of plant expansion and improvements. Not forgotten should be the fact that many hundreds of thousands of new businesses have been started since the war's end and most of them had to do some borrowing. Many have fallen by the wayside, as reflected by the rising number of business failures, and the recently noted slowing of collections is another sign admonishing to caution. Still on the whole, most loans seem to have sound business reasons behind them, and banks as a whole have never been in a stronger position.

The official round of warnings was initiated by Marriner Eccles, Chairman of the Federal Reserve Board, who expressed alarm at the way bank borrowing has been feeding inflation. He stated that credit expansion has been going on at an annual

Loans of All Insured Commercial Banks
(In millions of dollars)

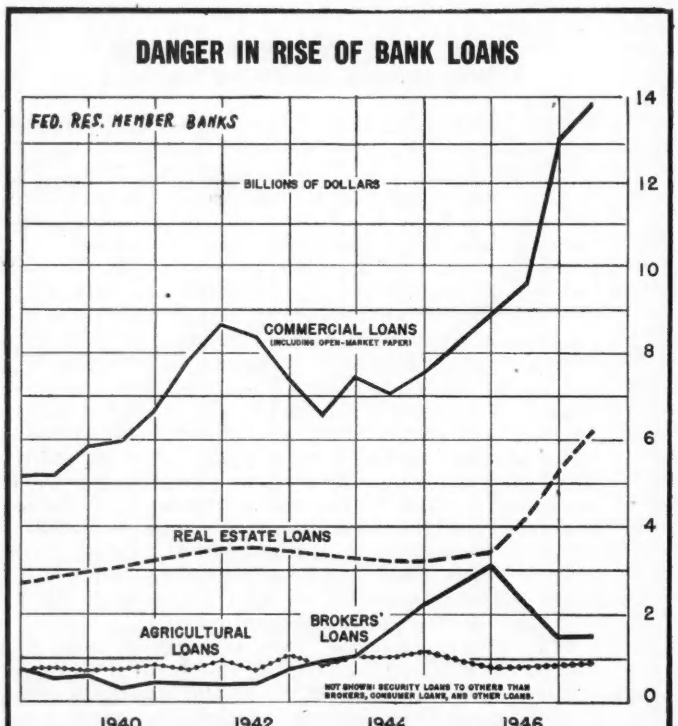
	June 30, 1947	June 29, 1946	June 29, 1946-June 30, 1947 % Increase	Dec. 31, 1945	Dec. 31, 1945-June 30, 1947 % Increase
Total Loans	$33,250	$26,791	24.1%	$25,765	29.0%
Commercial loans (including open market paper)	14,765	10,334	43.0	9,461	56.1
Agricultural loans	1,549	1,366	13.4	1,314	17.9
Real Estate loans	8,201	5,738	43.0	4,677	61.5
Consumer Loans	4,893	3,069	59.5	2,361	107.5

Source: Federal Reserve Bulletin

rate of $10 billion and that continued expansion at that rate would provide an inflationary force more than double the anti-inflationary effect of the prospective surplus in the Federal budget for the current fiscal year. It would equal, he said, the inflationary impact of the unprecedented surplus of exports in our foreign trade in recent months.

Preston Delano, Comptroller of the Currency and head of examiners of national banks, echoed Mr. Eccles' warnings. He placed outstanding commercial and industrial loans of national banks at $9 billion at mid-year, a rise of 48% within a year, though a gain of only 6% since the end of 1946. He advocated that bank examiners use their influence and persuasive powers to prevent further credit expansion in those fields which contribute heavily to inflation.

In all these warnings, other inflationary forces at work were of course not ignored, such as the shortage of goods both at home and abroad, quite apart from the record-breaking money supply. Only over the latter, have banks a measure of control, for bank loans increase the deposit money available. However, the purpose of many business loans was to finance productive facilities, something that undoubtedly contributed toward relieving the shortage of goods. Had such loans not been made, progress in stepping up production would have been slower and there might have been greater inflationary pressures than otherwise. Such loans are of the most constructive type and hardly open to criticism. Much credit money, however, also went into the financing of inventories, often perhaps excessive inventories, or to finance real estate transactions at highly inflated values. Even farmers have been flocking to banks, as witness the recently rising demand for loans against crops and for new equipment. Such loan requests were far less numerous last year; but meanwhile farmers have bought land at high prices, resulting in the need for credit accommodations. As far as business loans are concerned, it is worth noting that business inventories are now valued at over $38 billion, an increase of almost $8½ billion over a year ago. Spurting figures of business loans undoubtedly reflect the mounting dependence on borrowing to finance this and any further accumulation.



Can Brakes Be Applied?

It must be granted that if bankers as a whole heed the official warnings and tighten their lending policies, they can doubtless contribute towards the slowing of the inflationary price rise. This would mean, particularly, restraint on loans to finance consumer purchases, but also discouragement of all other loans which do not contribute directly to the production or distribution of goods.

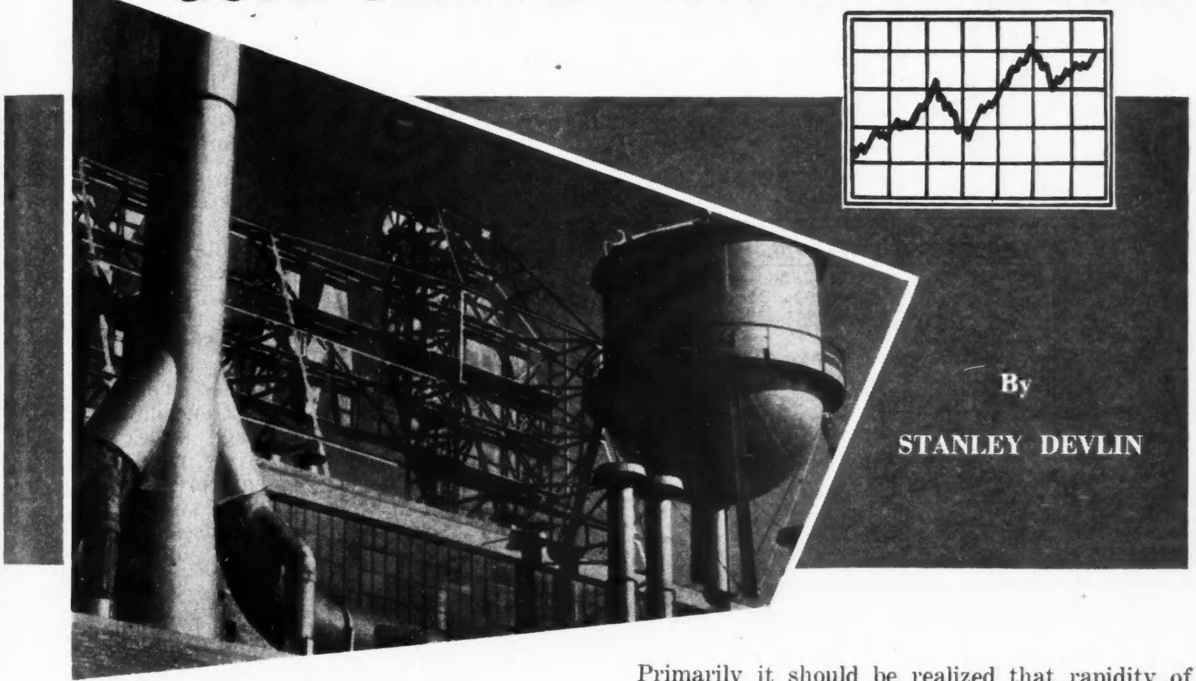
However, apart from persuasion, the Government can do little to influence bank lending policies. It can ask bank examiners to get "tougher," to criticize consumer loans or real estate loans at inflated values, or loans to carry obviously excessive inventories. It can, and does, impress on banks the desirability to increase their capitalization to lessen loan risks. But it cannot curtail the amount of available lending money!

Banks can get all the credit money they need merely by selling Government securities to the Federal Reserve System. The latter is obliged to purchase such offerings or else risk a decline or collapse in the Government bond market which would not only greatly increase the cost of carrying the public debt but would seriously endanger our entire financial structure in which the Government now occupies such an important part.

When the Federal Reserve System acquires from banks additional Government securities — of which commercial banks hold over $70 billion — new reserves are created. These reserves pass to other banks and ultimately (*Please turn to page* 108)

Varying New Trends in . . . . .

CORPORATE PROFIT MARGINS



By

STANLEY DEVLIN

Industries of every description and at every level, because of the current flux in the economy, are in an endless battle to make satisfactory operating profits. Both within and without the control of management, new problems arise to challenge the experience and skill of company executives from month to month. Hence interim operating statements of most large concerns disclose widely divergent results in the struggle to offset rising costs of wages and materials through larger sales and increased efficiency. One common yardstick of success, though by no means infallible, is the statistical value accorded to profit margins, or the percentage of net volume left after permissible expenses and reserves for depreciation. Sometimes this figure gives a clue to trends in the process of development, although proper reservations are needed in attempts to associate it with net earnings potentials; special charge-offs and the take of the tax collectors do not enter this specific picture. For the purposes of our discussion, operating margins per se are the sole subject.

To clarify our comments, we have appended a list of selected industries, each with representative components, to show in tabular form how profit margins of the various concerns have widened or narrowed at different periods. Work interruptions, shortage of materials or transportation difficulties, in some cases may have been a temporarily restrictive factor, while in other instances abnormal demand or price rises have widened profit margins for a limited period. Where detectable, such offsetting influences should be assigned their proper weight.

Primarily it should be realized that rapidity of turnover is an important element of all profit margin considerations. Processors and distributors of perishable foods, for example, can afford to establish slim margins that would prove ruinous to makers of heavy machinery. In making comparisons, therefore, appraisals should be tempered accordingly, all along the line. The big test now looming up is how long high level sales at possibly firm or advancing prices can tend to support rising or even normal profit margins, with operating costs continuing their relentless threat.

Cost-Sales Relationships

Another important thing to bear in mind is that in discussing profit margins, we are forced to talk in terms of percentage. In terms of dollar profits, results might be radically different. That is to say, the relationship between costs and sales might contract substantially and yet leave room for larger dollar profits. On basis of $10 million annual sales and a profit margin of 10%, a concern would show operating profits of $1 million, whereas if volume rose to $20 million and the margin narrowed to 6%, the profit would show as $1.2 million. This illustrates rather clearly the caution needed in assessing profit margins by themselves, for dividends are paid in dollars rather than percentages. On the other hand, where overhead can be spread over an increasing volume, the margin often widens. If this trend seems likely to hold its own or expand, definite prospects for larger taxable profits exist.

At this point it should be remembered that an expanding volume may be attributed to an uptrend

in prices rather than higher unit sales. During an inflationary period, therefore, dollar profits often increase though physical output and profit margins remain stable or even decline somewhat, the element of operating costs naturally entering the picture too. As an extreme example, consider the situation in China where a modest 10% profit on a hairbrush might now equal $5000 Chinese. Viewed from this angle, the significance of profit margins has become a somewhat controversial subject, in that they may be both cause and effect of inflationary influences. Measured by percentage, profits may appear entirely rational, if not modest, whereas in terms of dollars they may appear all out of proportion with normal standards.

Beyond much question, in times like the present when prices are on the upgrade and goods in the process of distribution pass through several business channels, though profit margins at each level may be beyond criticism, the compounding at each step in terms of dollars is a strong stimulant to inflation. A dollar item on the factory floor, passing through five hands, each taking 10% profit, will cost $1.60 when it reaches the consumer. On the other hand there is the undeniable fact that when costs rise, more working capital is required to run the business, besides which it is the traditional prerogative of all business men to use the percentage yardstick in figuring their operating profits.

Windfalls From Inventory Profits

Under current conditions, when rising prices create possibly non-recurring inventory profits, with resultant benefit to profit margins, there is danger that they may narrow fast when such windfalls cease, or when prices level off or start to trend downward. As wage scales are relatively rigid and many enterprises cannot reduce swollen overhead expenses, the possibility of a sharp squeeze in profit margins on declining sales is very real, for dollar profits might drop at an even faster rate. This may well be a contributing reason, combined with general cost factors and the fact that additions to facilities, or replacements, are far more costly than formerly, that tends to delay a downtrend in prices. While many managements during a sellers' market could afford to lower prices at the expense of profit margins, they are afraid to do so, and with some justification. On the other hand, there are probably many instances where profit margins have been held unnecessarily wide in proportion to rising costs, with the result that profiteering has raised its head. When supply and demand eventually reach a balance, restoring normal competitive conditions, such tactics will no longer be possible.

Turning to the appended tables, it will be noted that a sharp up-

Trend of Sales and Profit Margins of Selected Companies

	SALES—In Millions of Dollars				OPERATING MARGIN—In Percent			
	1946	1st Qu. 1947	2nd Qu. 1947	6 Mos. 1947	1946	1st Qu. 1947	2nd Qu. 1947	6 Mos. 1947
Automobile Accessories								
American Bosch Corp.	$13.7	$ 5.0	$ 5.4	$10.4	def.	6.8	9.8	8.3
Electric Auto-Lite	122.8	43.4	46.9	90.3	4.6	4.8	6.4	5.6
Stand. Steel Spring	21.7			16.2	15.4			14.0
Stewart-Warner Corp.	58.9			40.2	8.9			7.1
Automobile Manufacturers								
Chrysler Corp.	870.0	317.0	331.6	648.6	3.8	11.7	8.1	9.9
Fruehauf Trailer	76.7			43.9	12.0			10.7
General Motors	3,127.9	804.8	941.6	1,746.4	F5.5	17.8	17.5	17.7
Brewers & Distillers								
National Distillers Prod.	450.3			A418.9	14.3			A15.6
Ruppert (Jacob)	22.8	5.4	6.6	12.0	16.4	10.3	10.2	10.2
Building Construction & Equipt.								
Celotex Corp.	Q33.1			J21.7	Q23.2			J24.0
Flintkote Co.	52.6			A59.6	14.7			A14.4
Johns-Manville	92.0	29.8	33.6	63.4	9.2	12.2	14.1	13.2
Lone-Star Cement	39.8	9.4	11.5	20.9	22.4	23.0	24.5	23.8
Chemical Products								
Air Reduction	71.2	19.9	22.1	42.0	12.9	11.5	11.1	11.3
Columbian Carbon	34.3	10.5	10.1	20.6	17.9	22.6	23.5	23.1
Dow Chemical	G101.8			G130.4	G18.5			G21.7
DuPont de Nemours	661.8	189.8	195.9	385.7	21.5	27.6	23.4	25.5
Drugs & Cosmetics								
American Home Products	132.3	31.7	30.1	61.8	11.6	9.7*	6.2*	8.0*
Lambert Co.	30.2	7.2	6.8	14.0	17.9	12.5*	3.1*	8.0*
Lehn & Fink	16.3			X15.4	6.1			X2.6
Merck & Co.	61.6			34.8	19.0			15.3
Parke, Davis & Co.	66.2	18.2	17.6	35.8	32.9	30.1	27.3	28.7
Sterling Drug	121.4			66.4	19.3			17.8
Electrical Equip. & Access.								
General Electric Co.	679.1	233.8	303.9	537.7	3.4	7.8	10.5	9.1
Maytag Co.	26.8	10.9	14.1	25.0	19.4	18.1	20.6	19.4
Westinghouse Electric	301.7	140.1	172.2	312.3	def.	11.8	14.8	13.4
Food Processing								
General Foods	330.9	100.1	89.3	189.4	9.9	10.0	2.7	6.5
Standard Brands	261.2	77.6	69.9	147.5	7.3	6.6	0.9	3.8
House Furnishing Products								
Bigelow-Sanford	39.2			28.4	7.6			10.2
Simmons Co.	92.9			58.4	17.1			13.1
Machinery Mfrs.—Farm Equip.								
Allis-Chalmers	93.8			84.9	def.			1.1
Gleaner Harvester	E4.8			B5.1	E32.5			B32.8
Machinery Mfrs.—General								
Bucyrus-Erie	33.7			27.8	14.5			18.2
Fairbanks, Morse	56.6			41.3	9.3			10.2
Joy Mfg.	E29.5	12.8	14.9	B39.3	E17.5	18.3	19.5	B19.0
Milk Products								
Beatrice Foods	P125.1			T179.0	P5.5			T5.4
National Dairy Prod.	742.4			425.4	8.0			3.8
Pet Milk	113.3	30.6	30.9	61.5	3.0	2.4	7.1	4.8

*—Pre-Tax Margin.
A—Year ended April 30.
B—For 9 months to June 30.
d—Designates a deficit.
E—Year ended Sept. 30
F—Due to $45.7 mil. deducted for cost of reconversion.
G—Year ended May 31.
H—Year ended July 31.
J—For 6 months to April 30.
N—Year ended March 31.
P—Year ended Feb. 28.
Q—Year ended Oct. 31.
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trend in volume has been characteristic of the automobile accessories industry, due to heavy demand for both original equipment and replacements. Despite heavier costs, the spreading of overhead over larger sales, along with a firm price structure, has resulted in generally wider operating margins during the first two quarters of 1947. For the full six months period though, the profit margins of both Stewart Warner and Standard Steel Springs have narrowed slightly compared with the figures for all of 1946. As for the automobile manufacturers, varying experience is evident. Steadily rising costs for Chrysler and General Motors have been cutting down profit margins moderately, although volume gains have been tremendous, Chrysler apparently feeling the impact more. Inadequate supplies, though, have restricted output of both these concerns, and upon this factor will depend the margin trend over the intermediate term, for sales could still be substantially increased.

Among the brewers and distillers, a large increase in sales by National Distillers has been reflected in wider margins. Operating margins of Jacob Ruppert have remained practically stable during the first half, although they have narrowed considerably compared with last year. As disappearance of the ten cent glass of beer would check sales, the brewers have been forced to hold prices stable despite rising expenses.

Expansion in demand for building materials continues to push up sales for their producers, and a firm price status has enabled them to widen operating margins slightly during the current year. It is interesting to note how the two concerns (out of 4 listed on our table) with the largest volumes have operating margins far narrower than the other two. The 24% margin of Celotex for the first half this year is nearly double the average for a prior decade. Lone Star Cement's margin, on the other hand, of 23.8% compares with an average of about 30% during the past 10 years. Johns-Manville and Flintkote, recently showing margins of 13.2% and 14.4% respectively, are varying little from prewar experience.

Chemical Industry

In the chemical industry, regardless of impressive volume gains, profit margins of the larger concerns have widened only modestly, and in the case of Air Reduction the ratio has slightly declined compared with 1946. The high degree of mechanization in this industry has tended to minimize the wage factor and traditional policies have stabilized prices considerably. In scanning the producers of drugs and cosmetics, however, the drastic narrowing of operating margins shown by some of the concerns listed reflects a sudden drop in (*Please turn to page* 110)

Trend of Sales and Profit Margins of Selected Companies

	SALES—In Millions of Dollars				OPERATING MARGIN—In Percent			
	1946	1st Qu. 1947	2nd Qu. 1947	6 Mos. 1947	1946	1st Qu. 1947	2nd Qu. 1947	6 Mos. 1947
Motion Pictures—Amusement								
Brunswick-Balke-Coll.	$22.3	$ 6.1	$ 6.0	$12.1	8.2	7.3	1.8	4.6
Eastman Kodak Co.	274.7			V153.6	21.6			V21.1
Loew's, Inc.	R188.5			S141.5	R18.6			S17.1
20th Century-Fox	190.3			93.5	20.9			15.9
Warner Bros. Pict.	R163.9			T130.1	R26.3			T23.9
Office Machines & Access.								
Burroughs Adding Mach.	46.2			30.2	14.3			18.1
National Cash Register	81.2	28.6	33.9	62.5	4.6	15.2	14.3	14.7
Remington Rand	N108.0			N147.1	N13.1			N18.1
Oil Producers & Distributors								
Continental Oil	159.2	46.9	55.5	102.4	27.6	26.2	26.9	26.6
Gulf Oil	562.2			357.6	21.8			16.5
Phillips Petroleum	220.1	61.7	70.6	132.3	27.5	15.3	17.0	16.2
Richfield Oil	68.9	20.2	21.2	41.4	26.7	18.5	18.9	18.7
Standard Oil of Ohio	160.6			92.1	18.2			11.3
Tidewater Assoc. Oil	216.3	66.3	72.0	138.3	15.8	10.5	12.3	11.4
Paper Products								
Crown Zellerbach	A102.1			A127.8	A17.1			A22.9
International Paper	287.9	96.4	103.1	199.5	21.1	24.0	22.5	23.2
Union Bag & Paper	44.9	14.3	15.8	30.1	22.6	31.7	33.7	32.7
Railway Equip. & Mfrs.								
Amer. Car &Fdry.	A118.1			A132.8	A8.1			A8.2
Amer. Locomotive	115.0			48.3	9.7			5.6
Baldwin Locomotive	85.3			50.6	7.8			5.1
Westinghouse Air Brake	301.7	140.1	172.2	312.3	def.	11.9	14.8	13.4
Ret. Distr.—Groc. & Gen. Mdse.								
American Stores	314.6			189.7	4.9			2.6
Grant (W. T.)	Z180.3			Y95.9	Z8.2			Y8.5
Ret. Stores—Mail Order—Cloth.								
Federated Dept. Stores	H234.1			H280.8	H10.3			H5.9
Marshall, Field & Co.	196.9	45.8	50.0	95.8	12.2	9.0	7.2	8.1
Montgomery, Ward	Z974.3			Y508.6	Z9.2			Y6.2
Steel & Iron Products								
Acme Steel	39.8	12.9	14.6	27.5	20.8	25.7	23.0	24.3
Bethlehem Steel	787.7	237.5	265.9	503.4	8.3	14.1	10.8	12.4
U. S. Steel	1,496.1	475.0	533.8	1,008.8	15.2	18.6	15.7	17.1
Youngstown Sheet & Tube	216.3	72.0	77.0	149.0	16.3	20.6	17.0	18.8
Textile Manufacturers								
American Viscose	138.8	45.7	48.3	94.0	19.3	17.2	18.3	17.8
American Woolen	170.8	43.7	41.3	85.0	21.4	17.1	16.6	16.9
Celanese Corp. of Amer.	135.2	44.8	40.0	84.8	25.3	23.3	20.2	21.8
Cluett, Peabody	44.4			27.9	12.1			19.6
United Merch. & Mfrs.	X129.8			X180.1	X15.1			X19.0
Tire & Rubber Products								
Goodrich (B. F.)	361.4			201.3	16.7			11.1
Goodyear Tire & Rubber	616.5			316.5	8.0			11.7
U. S. Rubber	496.2			283.3	6.9			6.4
Tobacco & Cigarette Producers								
General Cigar	27.3			17.0	5.8			8.2
Philip Morris & Co.	N178.7			N170.9	N4.7			N5.9

*—Pre-Tax Margin.
A—Year ended April 30.
B—For 9 months to June 30.
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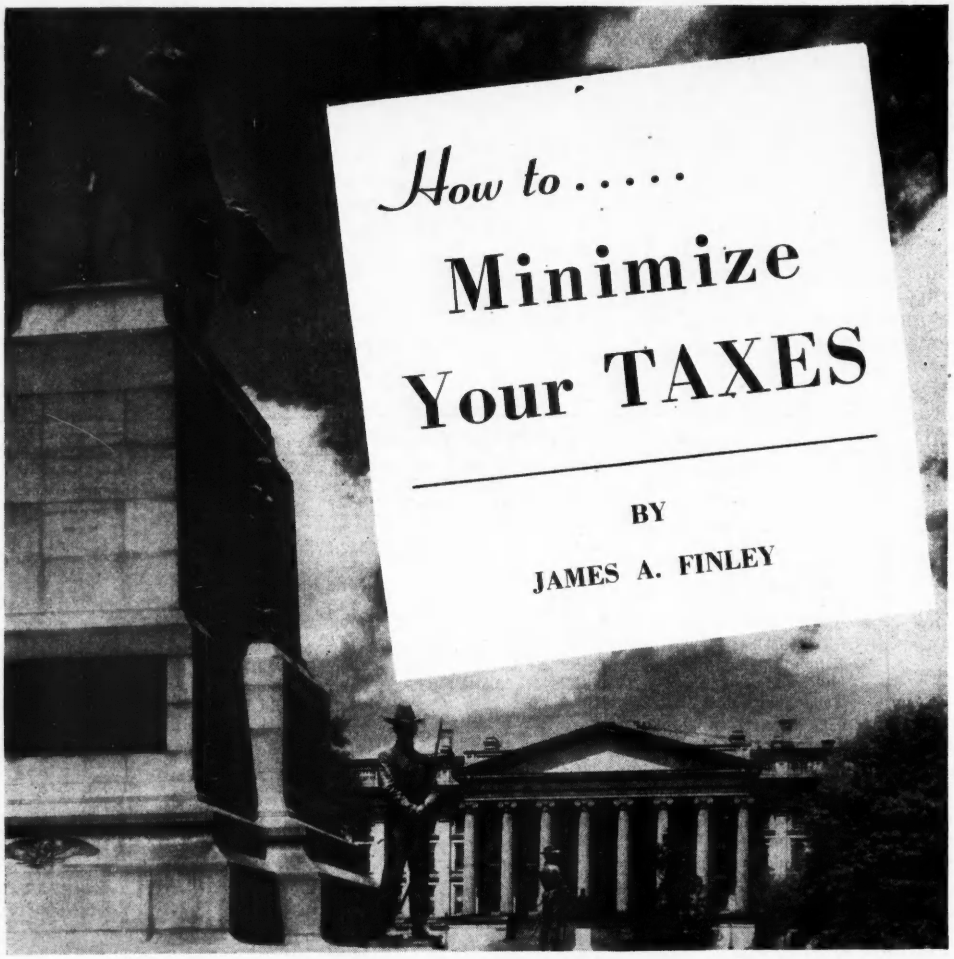


How to ..... Minimize Your TAXES

BY

JAMES A. FINLEY

The movement of security prices thus far this year has presented innumerable opportunities for reducing an otherwise onerous tax bill and too much stress cannot be placed on desirability for an investor to analyze his capital gain and loss position well in advance of the year end.

It may be to his advantage to establish losses now to offset previously registered gains. On the other hand, it may be more advantageous to switch some of his holdings on which he has losses to other securities comparable as to price, industry and prospects. Or the switching operations may achieve the two-fold purpose of taking advantage of the tax angle and at the same time improving the quality of one's holdings. The course to be adopted will depend on each individual's surtax bracket, investment objective and conviction as to the market's outlook. The first two, of course, vary greatly. As to the market outlook, we refer you to the A. T. Miller article. We shall, therefore, confine ourselves to taxes and proceed on the premise that all investors should know how the capital gains tax may affect them.

Gain or loss on a security transaction is, of course, the difference between the "cost basis" of the security as measured against the proceeds from its sale. "Cost basis" is not always the same as the original cost to the investor. It may be changed through a variety of circumstances, such as reorganization, or recapitalization plans, or the receipt of stock dividends and rights, to mention but a few. Most of these circumstances are covered by highly technical provisions of the tax law and are outside the scope of this article. Accordingly, we shall limit ourselves to security transactions which are not subject to the adjustment of original cost basis, which fortunately covers the vast majority of transactions.

One example of the adjustment of original cost basis is worthy of mention here. That is the case of interest on defaulted bonds. If a person buys bonds "flat" with defaulted interest coupons attached, the subsequent collection on the defaulted coupons is not treated, for Federal Income Tax purposes, as taxable income. It represents a return of capital and the amount collected goes to reduce the original cost of the bonds. The thus reduced original cost becomes the "adjusted cost basis" of the bonds and upon subsequent sale, any gain is therefore increased, and any loss is reduced.

The cost of a security, generally speaking, is the total sum paid for the security, which includes brokerage comissions, and in the case of "odd lots"—Federal Tax. Gross proceeds from the sale of a security is decreased by the brokerage commission and Federal Tax but **not the State Tax.** The cost of State Taxes is fully deductible separately as "taxes" in computing your Federal Income Tax. In short, cost is the total sum paid for a security as per the brokers' bill, while sales proceeds are the net proceeds received **plus State Taxes** and not the amount of net proceeds as shown on your brokers' bill covering the transaction. Of course, the item of accrued interest on transactions covering bonds is eliminated in computing cost as well as the net proceeds from a sale.

Long-Term and Short-Term Holdings

If security is held for six months or less, it is a short-term holding and the resultant gain or loss

thereon is short-term.

If a security is held for **more** than six months, it is a long-term holding and the resultant gain or loss thereon is long-term.

In the case of individuals, estates and trusts, 100% of a short-term gain or loss is taken into account for tax purposes, whereas only 50% of a long-term gain or loss is taken into account.

It can readily be seen therefore, that the length of time that a security has been held is important in determining the amount of gains subject to tax, or the extent by which gains may be reduced by losses.

Remember, therefore, that the holding period of a security begins on the day **after** its purchase and ends **on** the day of its sale. Remember, too, that it is the date on which the respective purchase and sale orders are **executed** and not the settlement date of the transactions which is the determining factor in computing the holding period.

For example: A taxpayer purchases 100 shares U.S. Steel Corp. on March 1, 1947 (date on which his buy order was executed). In order for a subsequent sale of the stock to result in a long-term transaction, the sale must be **executed** no earlier than September 2, 1947. The six months holding period, in this instance, exclusive of the date of purchase, expires on September 1, 1947. As we have pointed out above, a security must be held **more than** six months in order for the sale to result in a **long-term** transaction.

The Treasury Department's position with respect to year-end transactions is somewhat at variance with the above. The Department holds that a "cash basis" taxpayer realizes a loss in the year of sale if the loss results from a sale executed on December 31st. If, on the other hand, a profit results from a sale executed on December 31st, such profit may not be included in the curent year, since the Treasury Department holds that the settlement date governs in this instance for "cash basis" taxpayers. Accordingly, if a "cash basis" taxpayer wishes to include a profit in his return for the current year, he must make certain that the sale is executed in time to have the settlement date on or before December 31, 1947, or resort to a cash sale on or before December 31, 1947.

Tax on Capital Gains

Net short-term capital gains are fully taxable as ordinary income at normal and surtax rates. Net long-term capital gains are taxable at a **maximum** effective rate of 25%. The Internal Revenue Code limits the tax on long-term capital gains to a maximum rate of 50%. In other words, 50% of the long-term capital gain taken into account times the maximum rate of 50% thereon equals a maximum effective rate of 25%. If a person's surtax bracket is less than 50%, the tax is, of course, less than 25%. In this event the tax would be 50% of long-term gain taken into account times the surtax bracket of the individual taxpayer.

A taxpayer who has a profit on a security held for less than six months, which he wishes to sell, should consider the tax effect of the sale before consummating the transaction. Even if the security is declining in value, the difference in prospective tax liability may render desirable the holding of the security until at least the expiration of the six months holding period and thus qualify it as a long-term holding.

For example: Asume a taxpayer has a surtax net income of $50,000 for the year 1947 and a profit of $10,000 on a security held for less than six months, but no offsetting losses. If he were to sell the security immediately it would result in a short-term capital gain and be fully taxable as ordinary income at normal and surtax rates. Since the tax rate for this taxpayer would be 71.25% (72% surtax plus 3% normal tax, less 5% of the total) the tax on the short-term capital gain would amount to $7125, leaving a profit to the taxpayer of only $2875. If the security is sold after being held for more than six months and the profit remains at $10,000, the tax rate would be 25% (50% of 50% of the actual gain) and the tax would amount to $2500, resulting in a retained profit after taxes of $7500. Even though the delay in making the sale results in a decrease of the profit from $10,000 to $5,000 the long-term tax on the latter amount would be $1250 resulting in a retained profit after taxes of $3750, which is $875 greater than the $2875 retained on the $10,000 profit as a short-term transaction.

Since short-term capital losses are fully deductible in computing net capital gains and long-term capital losses are only 50% deductible, it is more advantageous to take a short-term capital loss as it requires only $1000 of these to offset $2000 of capital gains of the long-term variety.

Losses of either term (long or short) may be used to reduce the net amounts of long or short-term gains. Where the losses are greater than the gains, they may be applied to a maximum of $1000 against ordinary income. Balance, if any, is "Net Capital Loss."

Net Capital Loss Carry-Over

"Net Capital Loss" may be carried forward for five years to apply against (a) an unlimited amount of future net capital gains in such years or (b) ordinary income not exceeding $1000 in each of the five years.

For example: Assume a taxpayer has $11,000 in capital losses after offsetting all his gains this year. He would use $1000 of this as a deduction against 1947 net income. This would leave a carry-over of $10,000 in losses for 1948. If his net capital gain next year is $4000, he can use that amount of his carry-over to offset this gain, thus owing no capital gains tax in 1948. In addition, another $1000 of the carry-over could be used as an ordinary tax deduction. This would leave a $5000 carry-over for the following years 1949 to 1952, to be applied similarly against capital gains and ordinary income, in such years.

"Wash Sales"

A loss registered on a "wash sale" is not allowed as a deduction. A "wash sale" occurs when the same stock or substantially identical stock or securities (such as common stock and voting trust certificates representing common stock) are purchased within 30 days before or after the sale. The securities sold may however be immediately replaced by securities of other corporations.

Observe that the "wash sale" provisions do not apply to sales of securities at a profit. This fact creates a tax saving possibility. Readers with unrealized long-term profits and previously registered losses may sell the securities on which they have a profit and immediately repurchase them. In addition to registering a capital gain which may be fully offset by the previously (*Please turn to page* 103)

Happening In Washington

By E. K. T.

CAPITAL observers are anxiously awaiting the first formal utterances of Rep. John Taber, confident that the impressions he gained in his tour of Europe will weigh heavily in determining the international policies of the next session of Congress. Chairman of the House Appropriations Committee and leader of the "economy bloc" in Congress, the New York Republican has the federal purse strings in his hands at a time when dollars loom high in diplomacy. Taber says he didn't find any underfed in Europe—which might mean he doesn't favor general aid. On the other hand he has voted for UNRRA, Greek-Turkish and British loan, supported the Bretton Woods Agreements.

WASHINGTON SEES:

Investigation of Washington lobby activities by the Department of Justice has imporatnt targets in sight. It cannot be dismissed as the simple formality which Attorney General Tom Clark's public statements clothe it in; it is not a casual check-up on abidance by a statute already a year on the books.

The Lobbying Act is a surprisingly carefully prepared law when it is considered that its underlying purpose was to expose special interests which have been embarrassingly active in exposing the interests of the men who enacted it. It protects the right of petition which the Constitution set up, merely demands the names of the lobbyists, those they represent, the type of activity, and the amounts paid for the service of "influencing"—in a perfectly proper sense—the pro and con on public questions being handled by Congress.

Attempts at evasion are numerous, Congressmen suspect after reading filed statements. But, more importantly, they fail to find in the recorded data the names of many of the most aggressive and, presumably, highest paid "molders of Congressional opinion."

It is not likely that the penal sections of the statute will be used on any wholesale basis. But there is political dynamite in the conjecture that some members of Congress will be found in the pay, or special favor, of interests having legislative matters pending on Capitol Hill. Prominent names will hit newspaper headlines—just in advance of election day.

REVERSAL by National Labor Relations Board of General Counsel Denham's ruling that top officials of CIO and AFL must disavow Communist affiliation if their unions wish to employ the board's machinery in negotiations and disputes has given encouragement to groups favoring early amendments to the Taft-Hartley Law. Certain to be enacted is the Aiken Bill striking out the prohibition against political comment in union newspapers. Taft has agreed to that change but wants something to say about the text. With an election year on, bidders for the labor vote will fill the legislative hopper with bills, ranging from outright repeal to minor language changes.

MOTOR TRUCK manufacturers are reportedly receiving with mixed reactions the suggestion dropped by the Army transportation corps that federal and state governments use military type trucks for their peacetime needs so that they might be available for immediate asignment if the need arises. Idea is that, five years from now, 200,000 trucks of that type would be in use, ready for instant mobilization. Production costs would be greater than for standard type vehicles and reimbursement for the difference, by the government, is suggested. It's a "trial balloon" at this point.

CLOSED SHOP ban evidently is here to stay, for many years at least, despite attempts that will be made by union supporters to nick it out of the Taft-Hartley Law. Already 20 states have adopted bills paralleling, or going beyond, the federal statute and, a survey by the U.S. Chamber of Commerce indicates, more are on the way. Some go beyond the federal law which bars closed shop, permits union shop under certain conditions—and the state laws in those instances proscribe both. GOP controls a great majority of the statehouses as well as the Capitol. There's policy agreement.

As We Go To Press

Diplomatic circles here predict the United States will soon enter the real estate market, on a large scale. The plot mentioned in the "deal" is Greenland and the implications of the buy are important—not, as in the case of the Louisiana Purchase, for territorial expansion, or the Alaskan Purchase for economic gain, but for national defense and world peace.

Greenland was held to be within the protection of the Monroe Doctrine after World War I. The decision was fortunate; it smoothed the path for protective steps when World W loomed on the horizon. Denmark readily accepted the offer of protection.

War in the air is the threat that is likely to clinch the deal. Reasons for this country acquiring that territory are similar to those which impelled the United States to buy the Virgin Islands in 1917. Then, it was insurance against destruction of the Panama Canal; now it is defense against creation of alien air bases looking down upon the mainland.

Investigation of air freight rates by the Civil Aeronautics Board will be no casual "look see." But it may get under way too late. The rate structures set up by the carriers are almost as complicated as those used by the railroads and they are about to become further confused, complain CAB staff members, by recent permits to lower charges, granted three lines. The staff would like to see the permits suspended. They will not be.

Air freighting is largely the business of loosely-knit groups or individuals, many of them GI's with surplus war planes and imagination. Non-scheduled carriers predominate among the Johnny-come-lately independents. Older companies in the business complain their rivals are without official regulations as to maintenance and safety standards. They allege unfair competition, can prove their point.

Expansion in the home building industry is knocking the props from under the advocates of public housing, but a new line of attack is being developed. The demonstrable fact that most of the houses now being built are not available within the financial means of would-be purchasers, will give rise to the slogan that "homes for the middle-class are needed," that government aid is indicated.

The FHA effort toward rental housing is taking hold, meanwhile. During this year, through the month of August, 100,000 homes for renters were proposed in applications submitted to the federal financing agency.

And rent control is popping up again. Bi-partisan advocacy, led by Senator C. Douglas Buck, Delaware republican, and Senator John D. Sparkman, Alabama democrat, is winning adherents to the suggestion that the federal rules be continued beyond their Feb. 29, 1948 expiration date.

Little prospect exists for favorable action by congress on a suggestion that the antitrust laws be confined to firms and individuals selling commodities, not extended to cover sales of services. The American Medical Association felt the Justice Department lash, defended on the ground no commodities are involved. The defense was rejected. Now the realtors, soon to go to trial for restraining competition, are planning to trot out the same argument, hope the litigation can be delayed until Congress takes action.

Wool growers are getting ready for the next session of congress and already have drawn the basic plan for protection of the domestic industry. A Western senator has prepared a bill setting up a combination of import fees and quotas aimed at cutting down competition from imports.

New studies are going forward on the Social Security System which now covers about 42 million workers, but doesn't extend to those in agriculture, domestics, government workers and self-employed. Expansion to cover them is the objective of the inquiry.

Recent official actions are tracing the outline of the plans which were developed at the series of White House meetings with leaders of both major political parties and some outside advisers. Not all of the decisions were announced at the close of the preliminary meetings but it is becoming apparent that the entire program to meet foreseeable situations, was drafted and accepted.

First importance obviously was placed upon fighting the spread of communism in Italy and France—now. No decisions seem to have been made on a drive against inflation and high prices at home. Politics overcast the whole problem and possible solutions. When party leaders can find a battle-ground in the difference between Truman's "waste less" and Taft's "eat less," the political motive is obvious.

Crisis in the recovery plan for Europe falls naturally into two parts. There is the Marshall plan proper, which now is only under study and will not be ready for formal discussion for at least a month—Congress is not likely to discuss it until after the first of the year. The emergency program is the one now receiving consideration.

Specific distinctions should be made between the two plans. The Marshall program is for the non-Red countries of Western Europe, and is to apply over a period of four years at a cost of about 20 billion dollars. Its initial costs would be proportionately high, dwindle as aided countries approach self-sufficiency.

The emergency program calls almost exclusively for food and coal, to be delivered early next year. It doesn't apply to the 16 countries at which the benefits of the Marshall plan are pointed, but almost entirely to France, Italy and Germany. Its necessity springs from diverse causes, droughts, failure of the European countries to plant efficiently, harvest well, husband crops—and the "Red menace."

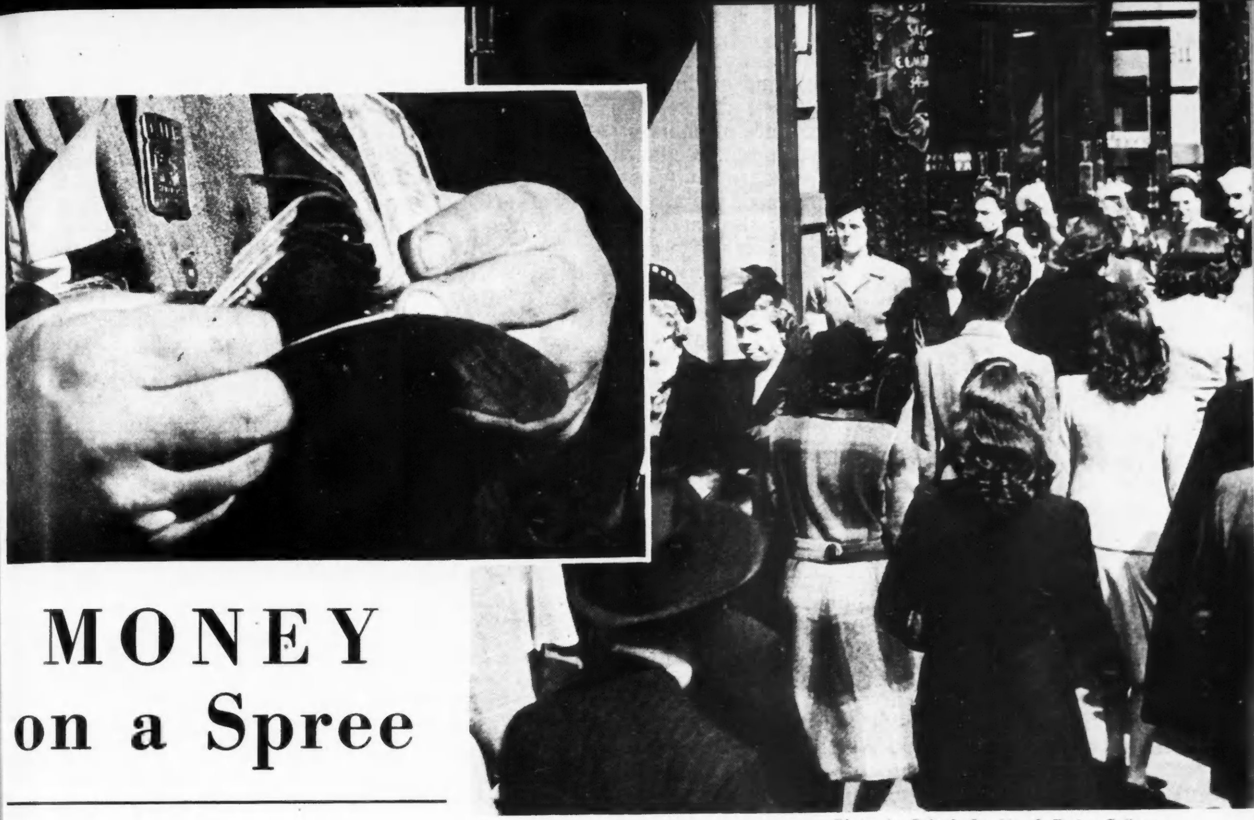
Even his best friends are telling Charles Luckman that he has an impossible task on hand—to bring about nationwide conservation and cooperation in dealing with the food crisis. The able head of Lever Brothers has a 26-man committee, but most of the work will fall upon his shoulders and those of Chester Davis, the former dealing with the industry groups and the latter doing the Washington job.

Luckman, Davis, et al, are commissioned to accomplish, without force of legal controls and the incentive on the part of the public to win a war, what never was completely achieved when those controls and that incentive existed.

Higher food prices for the rest of this year now seem a certainty. The tendency of certain commodity prices to zoom on crisis news is too well known to the Department of Agriculture to encourage any optimism there. Some experts here concerned with the food supply for the remainder of 1947 now look for a holding back of supplies for the new tax year. If they're correct, it means shortages, high prices.

With the Supreme Court back in Washington, California is revitalizing its right against entry of any final decree in the Tidelands oil case until Congress has a chance to look over the situation. Meanwhile, 18 cooperatives have filed claims to areas outside the three-mile limit in the Gulf of Mexico. Legislation is necessary before action can be taken, and a draft has been prepared by the Department of Justice.

A committee of three tax consultants appointed by Treasury Secretary Snyder has set up shop here and is hard at work on a series of problems currently worrying the government and many taxpayers. Included are taxation of cooperatives and other tax-exempt organizations; possibility of eliminating tax differences between proprietorships, partnerships, cooperatives, and profit corporations; double taxation of dividends.



MONEY on a Spree

By WARD GATES

Photos by British Combine & Ewing Galloway

Money for spending is not only available in record amounts but it is also being used faster. Overall spending shows no let-down.

In good times or bad, everyone is concerned about money, or more specifically, with the money supply. The amount of money which any of us has or can get determines the extent to which we can buy goods and services. The amount which all of us have and use, influences not only the trend of demand but the level of prices—the buying power of our money.

With the money supply at an all-time high, money—that is spending—has virtually gone on a spree. Our boom continues in full force and overall spending as yet shows no let-down. Demand for goods continues extremely heavy, with few exceptions; the price trend is still upward.

The amount of money available, however, gives an incomplete picture of potential demand. Individuals and businessmen own billions of dollars worth of Government securities which, because they can be readily turned into money, might well be termed "near money," a potent factor in our postwar economy.

Our postwar money spree thus is supported by several pillars, each stronger than at any time in our history. First, personal holdings of money and "near money" are at a record high, totalling some $138 billion. Of this, some $20.8 billion consists of cash—currency outstanding; another $29.4 billion are in form of demand deposits—subject to use at any time; some $49.3 billion consist of demand deposits and a total of $38.2 billion is "near money," held in form of Government securities which can be converted into cash at will. This enormous amount of liquid assets is over three times prewar and considerably higher than any wartime figure. It adds tremendous strength, from the standpoint of potential spending, to the second pillar—current income, likewise at an all-time high.

Personal income has expanded to an annual rate of $197 billion, with disposable income, that is income after taxes, better than $170 billion. Together with available liquid assets, this adds up to a boom potential of no mean proportions. What's more, money is being used faster!

A strong motive for holding money is uncertainty as to the future. Many individuals, enjoying larger incomes than they had ever before, saved during the war not only because certain goods were scarce but chiefly because they expected lower wages and serious unemployment after the war. The fact that these expectations failed to materialize is probably an important reason why people now are willing to use their money more freely, more rapidly. And the huge money supply, the increasing rapidity of its use, plus the fact that production of goods is still falling short of demand in many respects emphasizes our inflationary problem.

More Spending — Less Saving

Consumer spending continues at an unprecedented pace, currently at an annual rate of some $160 billion which accounts for fully 70% of total national production. Higher prices of course have much to do with this huge total and despite peak overall income, consumers are spending more, and spending money faster, because they have made drastic cuts in the amounts they are saving. Thus while during the war, consumers saved as much as 25% out of their incomes—in 1944, as much as $35.6 billion—so far this year they have been socking away only

an average of about 6%, or at an annual rate of some $11 billion. By spending more and saving less of current income, consumers have been able to take a lot more goods off the market in spite of the very substantial price rise that has occurred. Reduced savings naturally had to be expected in the postwar, with greater availability of goods; but this trend has been further intensified by the fact that so far at least there has been no evidence of a serious setback in production and employment.

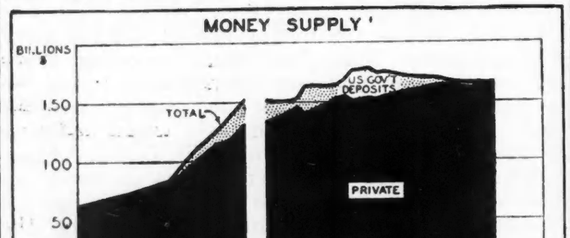
Business Spending and Exports

It is safe to say that the current boom has been sparked as much by huge spending on the part of business, and by soaring exports, as by the stepped-up rate of consumers' expenditures. Business during the first half of this year has been spending at an annual rate of some $29 billion compared with only $9 billion in 1945 and 1939. Additionally, foreign nations—largely with our aid—have spent in our market at an annual rate of better than $10 billion while our own Government's expenditures ran at an annual rate of over $27 billion.

Money indeed is on a spree, more so than perhaps at any time in our economic history. Moreover, consumer buying latterly has been further increasing with price resistance so far spotty and mainly verbal. Buying quite obviously is being spurred by fear of still higher prices. At the same time, consumer credit, another source of spending money, is headed for new postwar peaks from the level of $11 billion currently outstanding.

Expectations and attitudes concerning the future will doubtless continue to govern importantly the coming trend, how much money will be used, and how rapidly. Determined as this is by human motivations, there is little that can be done directly in the way of influencing money turnover, and the danger is that it may continue to aggravate fluctuations in the demand for goods, that is to accentuate our inflationary boom and ultimately make for instability in our economy. Perhaps more helpful than any other consideration in holding down money turnover today would be more widespread awareness of the fact that money is of value to us largely because it can be used but if we insist on using it unnecessarily before our economy has a chance to produce a sufficient volume of the goods we desire, our money will lose some of its value as prices rise. As it is, not only is the recent rise in money turnover aggravating an inflationary situation but if and when a recession does set in, as it ultimately will, a drop in money velocity or slowing down of spending is apt to intensify the problem.

We have shown how much money there is. Many



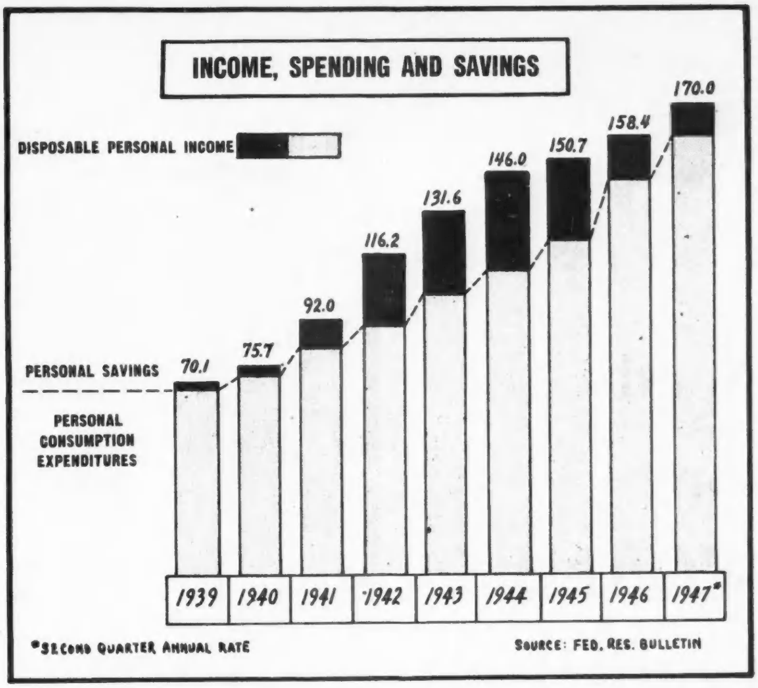
1. Total deposits adjusted and currency outside banks.
2. U. S. Government securities held by nonbank investors excluding U. S. Government agencies and trust funds.

Breakdown of Income Payments by Geographic Regions

	Total Income Payments ($ Million) 1945	1946	% Change
Continental United States	$155,201	$169,373	+ 9%
New England	10,860	11,995	+10
Connecticut	2,635	2,877	+ 9
Maine	847	917	+ 8
Massachusetts	5,631	6,269	+11
New Hampshire	460	543	+18
Rhode Island	956	1,006	+ 5
Vermont	331	383	+16
Middle East	43,577	48,031	+10
Delaware	393	430	+ 9
District of Columbia	1,607	1,736	+ 8
Maryland	2,501	2,716	+ 9
New Jersey	5,774	6,161	+ 7
New York	20,454	22,895	+12
Pennsylvania	11,376	12,437	+ 9
West Virginia	1,472	1,656	+13
Southeast	22,267	23,395	+ 5
Alabama	2,021	2,073	+ 3
Arkansas	1,218	1,328	+ 9
Florida	2,420	2,372	— 2
Georgia	2,445	2,567	+ 5
Kentucky	1,957	2,163	+10
Louisiana	1,986	1,982	(a)
Mississippi	1,205	1,182	— 2
North Carolina	2,621	3,031	+16
South Carolina	1,303	1,407	+ 8
Tennessee	2,443	2,535	+ 4
Virginia	2,648	2,755	+ 4
Southwest	9,370	9,714	+ 4
Arizona	594	627	+ 6
New Mexico	448	491	+10
Oklahoma	1,801	1,848	+ 3
Texas	6,527	6,748	+ 3
Central	42,893	47,838	+12
Illinois	10,695	12,019	+12
Indiana	4,102	4,386	+ 7
Iowa	2,375	3,012	+27
Michigan	6,799	7,379	+ 9
Minnesota	2,614	3,082	+18
Missouri	3,776	4,349	+15
Ohio	9,114	9,808	+ 8
Wisconsin	3,418	3,803	+11
Northwest	7,692	8,439	+10
Colorado	1,271	1,380	+ 9
Idaho	525	588	+12
Kansas	1,908	1,992	+ 4
Montana	555	669	+20
Nebraska	1,333	1,489	+12
North Dakota	566	624	+10
South Dakota	598	673	+13
Utah	649	689	+ 6
Wyoming	287	335	+17
Far West	18,542	19,961	+ 8
California	13,649	14,879	+ 9
Nevada	210	235	+12
Oregon	1,631	1,729	+ 6
Washington	3,052	3,118	+ 2

(a) A decline of less than five-tenths of one percent.

will want to know: Where is the money? A clear-cut answer to this question is somewhat more difficult. Theoretically at least, we all have it. In other words, liquid asset holdings are distributed among the entire population .but distribution is far from even. According to Government statistics, those in the higher income bracket hold a major portion with a relatively high percentage among businessmen and professionals. Farmers, too, are exceptionally well heeled, as everyone knows, and so is skilled labor that has been able to accumulate a sizable nest egg from high wartime earnings.



Current income remains high for virtually all consumer groups though there have been noteworthy shifts in income payments since the war's end. Per capita income for the country as a whole last year reached $1,200, more than double the $575 average for 1940. But while in the Central, New England, Middle East and Northwest regions, individual incomes were 10% to 12% higher than in 1945, in the Far West, Southeast and Southwest where the war effort had provided the largest income expansion, the gains in 1946 were of smaller proportions. The changes in income payments from 1945 to 1946 in the various geographical regions of the country are shown in the accompanying tabulation. The shifts that occurred are bound to have a significant bearing on spending and market potentials.

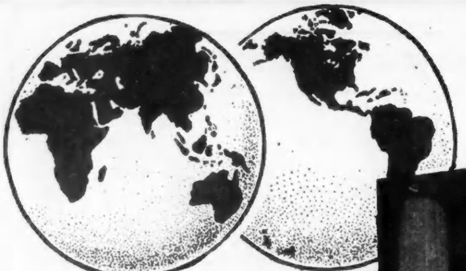
Changing Spending Pattern

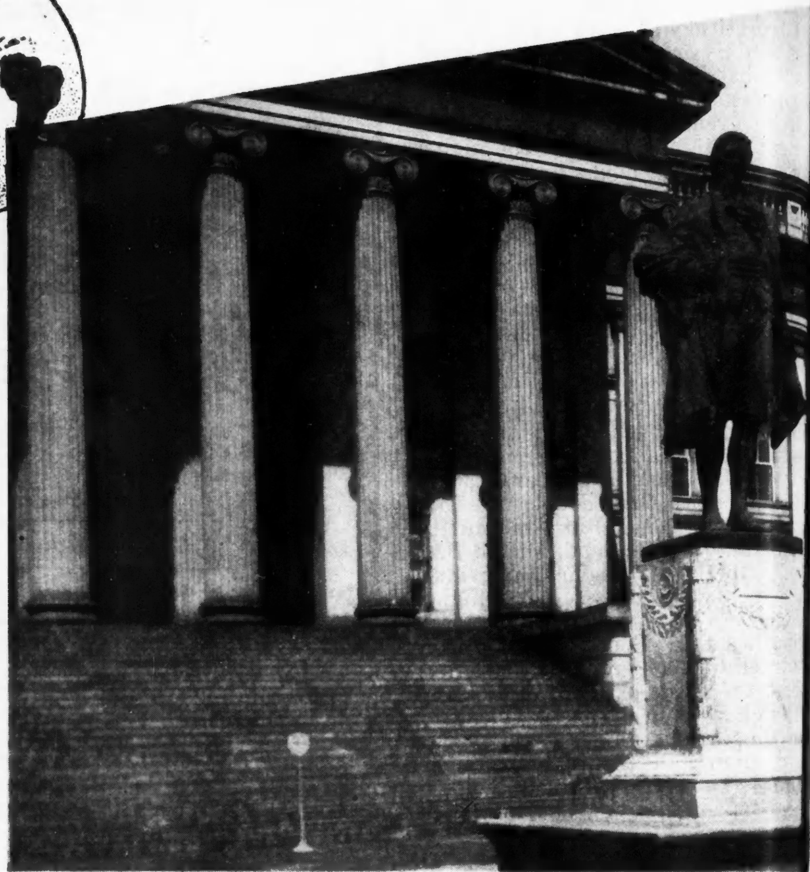
Spending since the war has been increasing steadily as more goods becomes available, but the pattern of spending of late has been changing. While consumers are still giving a larger slice of their spending money to retailers than in prewar (for food alone $10 billion a year more), in recent months they have been spreading it around more evenly than last year. Thus while total dollar intake of the nation's food stores got even farther out of line than in 1946, sales of other non-durable goods have been dropping back towards their prewar relationship to income. At the same time, business done by durable goods stores generally almost climbed back to the prewar sales-income ratio, with important exceptions. Automobile sales are still 50% below the prewar ratio—for well-known reasons, despite the fact that dollar turnover is high. More recently, because consumers have been paying so much for food, the gap between sales of non-durable goods and their prewar relationship to income grew larger again in the first six months of the year.

Without question, the rising cost of living is altering materially the nation's spending habits. Clothing budgets were getting smaller as food prices left less money for this purpose, and as autos, refrigerators, washing machines and all kinds of other durable goods for which families waited so long, have been pressing in. One result was the "battle of the hem line," indicative of efforts to spur lagging sales of women's apparel. Retail trade generally is characterized by diverse trends. Sales of "hard goods" are rising, luxury items are sharply down, apparel sales in a mild slump but such things as hardware, house furnishings, building materials, paints, floor coverings, automobile accessories and major appliances are eagerly sought. It is in these fields where the best sales potentials exist. Consumer preference, or consumer need, here is unquestioned. But while consumer income is going up and is being spent freely, the overall volume of goods—due to higher prices—is getting smaller.

Countless economic relationships are different today from what they were only a few years ago. Retail sales are no exception. Thus department store sales in recent months have shown a declining trend especially in terms of physical turnover and unit sales but as a yardstick for retail business, this trend calls for qualification. What's been going on has been a shift in buying power to a part of the population that trades little at department stores, and a shift of purchases into lines in which such stores are not heavily represented. As a result, overall consumer buying has been significantly more favorable than department stores sales alone would indicate; their decline does not necessarily furnish proof of any pronounced drop in consumer demand. Since only 10% of total retail trade is done at department stores, their sales by no means tell the whole story. Additionally, a part of the goods produced, and for which wages and income is paid out, does not flow into domestic retail channels but is bought by business as capital goods, by individuals as houses, etc. Hence it is quite possible under conditions of strong demand for capital goods to maintain prosperity even if retail sales do not keep pace with rising income.

Though urban consumers may be pinched by high living costs, the farmer—not usually a department store customer—can spend more. Farm income is running at peak levels and now accounts for almost 10% of total personal incomes, compared with only 7% before the war. *(Please turn to page 105)*





Need for WORLD CURRENCY REFORM

—A PRE-REQUISITE TO RECOVERY

By V. L. HOROTH

We may as well start by pointing out as we did in the last issue that dollar loans abroad alone cannot restore to normal the economic health of inflation-ridden countries abroad. The primary essential is more prodution, more work, and a more complete mobilization of existing resources. Some of these resources, such as food, raw materials as well as gold and foreign exchange have been hidden away because of fear of still worse times ahead, or simply for speculation.

To be sure, Western Europe in particular, because of crop failures, must get some assistance in the form of food and raw materials during the critical winter and spring months just ahead. But dollar loans alone will not compel the French farmer to till more land next spring, or to sell his wheat to the Government instead of feeding it to cattle. Nor will dollar loans force the hundred thousands of Italians now employed in the black market to do productive work in the factories and on the farms.

Briefly what is needed in Europe and other parts of the world is a changed attitude toward work and toward saving and investment. Unless such change takes place—and thus far there has been little evidence of it—there is a really serious danger that the burden of recovery may prove too much even for our country. The enormous job of rebuilding Europe cannot be financed entirely by the U.S. Treasury.

What is it then that prevents Europe from mobilizing her resources and from working harder? In our last article, we gave two answers: (1) Too much "poor-house" socialism that busies itself with the just distribution of the little that is available, rather than with increasing production. Too many controls and the heavy hand of the socialist bureaucracy have stifled initiative on the part of management as well as of labor. (2) Lack of confidence in money which discourages saving and investment.

Importance of Monetary Stability

Why is confidence in money, or to say it differently—monetary stability—so important in getting out production? This is what the World Bank says about it in its Second Annual Report: "With confidence in his money, the laborer is more willing to work, the farmer more willing to sell the food he produces. The incentive to hoard food and other products, as well as gold and foreign exchange, is removed. There is once more the stimulus to save without which the domestic investment required for reconstruction is unavailable. The drain of labor toward the black market is eliminated; so too is waste of manppower involved in the operation of the barter economy which inevitably arises when money system deteriorates. These results can be accelerated by foreign asistance, but they depend primarily *upon a willingness on the part of the peoples of*

the countries involved to pay the costs and to make the necessary sacrifices."

There is little to add, except perhaps a few concrete examples. It is said that European farmers work less and eat better today than they ever did largely because they do not trust the money they get. In France only about three-fifths of the land normally sown to wheat was plowed last year. With the drought cutting down yields, France has only about one-third of her normal wheat harvest. Yet the farmer feeds his wheat to livestock and the French Government is powerless to persuade him not to do so. The reasons? The French farmer is dissatisfied with the low price of wheat fixed by the Government, and besides he cannot get much for the money anyhow. In any case he can always sell meat for fabulous prices in the black market. On the other side of the world, the Japanese and the Burmese farmers have not bothered to raise more rice for precisely the same reason, distrust in money that buys less and less.

The coal miners in the Ruhr and in Great Britain are just as reluctant to exert themselves for money that is losing its value. In Germany in particular, the miners and factory workers refuse to work full week because they have to spend much of their time scouring the neighbouring countryside for food.

Gold, Dollar Bank Balances and Dollar Credits Available to the "Marshall Plan" Countries

(All figures in millions of dollars)

	Gold Reserves		Dollar Balances		Ex.-Im. Bank c)		Special Loans(d)		Property Credits(a)		Int. Inst. Credits(f)	
	Amount	Date	Amount	Date	Amount	Date	Amount	Date	Amount	Date	Amount	Date
Great Britain	2,200(e)	Oct.	484	Apr.			400	Oct.			60	
Switzerland	1,370	July	397	"								
Belgium	644	"	163						36	June		
	4,314		1,044				400		36		60	
France	590(b)	Sept.	210	Apr.	191	Aug.			7	June	275	
Netherlands	190	July	222	"	2	"			19	"	201	
Sweden	120(e)	Sept.	157	"								
Italy	60(e)		226	"	105	"			2	"		
Norway	77	July	111	"	45	"			20	"		
Denmark	32	"	58	"	5	"			10	"	40	
Luxembourg			22	"							10	
Austria					14	"						
Greece	20(e)		40	"	19	"	250	Aug.	46	"		
Spain	111	June	18									
Portugal	400	"	52	"								
Ireland	11	"										
Turkey	191	July	65	"	28	"	150	"				
Grand Total	6,016		2,225		409		800		140		586	

(a)—Unutilized Surplus Property and Lend-Lease Settlement loans. (b)—Including an estimate for the holdings of the Stabilization Fund. (c)—Unutilized amount. (d)—British loan and the grants to Greece and Turkey. (e)—Partly Estimated. (f)—Loans of the World Bank and of the Monetary Fund.

Effects of Lack of Confidence

But the lack of confidence in money has not merely led to underproduction, hoarding, and to the disposal of goods in black markets. It has also discouraged investment in new enterprise and government securities. In France, Italy and many other European countries this attitude forced governments to rely on inflationary borrowing from central banks. Seeing the decline in the internal purchasing power of their currencies, the people in Europe and in the Far East have been seeking to protect their capital by investing it in gold or dollars or Swiss francs. In France alone, the gold hidden away in stockings and vaults is estimated at over $3 billion; this would be about six times as much as the present gold reserve of the Bank of France. What the total hidden resources of gold and dollars may be is, of course, a mere guess. But there is reason to believe that the hoards may be as much as $10 billion (including gold and dollars hoarded in the Far East, and the dollars circulating in the Caribbean). If Western Europe and other parts of the world needing our assistance are to recover, these huge hidden resources must be uncovered and put to work.

How can confidence in currency be restored, production encouraged and the vast reservoir of hidden resources mobilized? The recipe is simple: By the reversal of the practices that have led to monetary instability. The first and foremost step should be to put a stop to the creation of excess purchasing power by inflationary (*Please turn to page* 103)

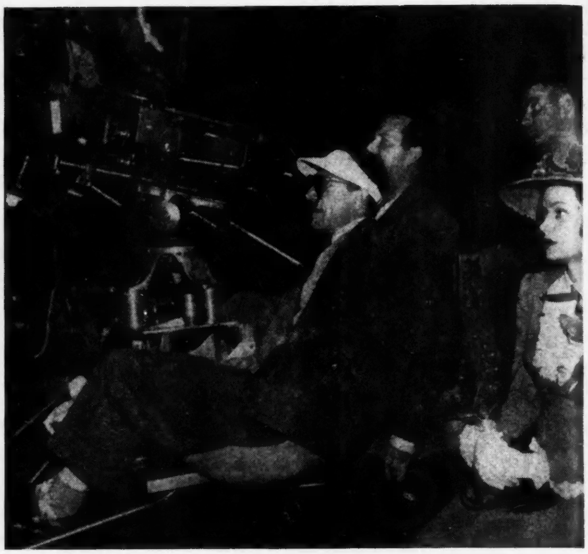
Volume of Purchasing Power, Industrial Production and Wholesale Prices

	Available Means of Payment (in billions of nat'l currency) Dec. '38	Jan. '47	Volume Purch. Power 1938=100	Industrial Production(a) 1938=100	Wholesale Price(a) 1938=100
United States					
Circulation	7	28			
C.B. deposits	41	117			
Total	48	145	302	219	118
Great Britain					
Circulation	.51	1.40			
C.B. deposits	2.25	5.66			
	2.76	7.06	256	135(h)	188
France					
Circulation	111	807			
C.B. deposits	34	304(c)			
	145	1,111	766	95	904
Italy					
Circulation	24(b)	558			
C.B. deposits	26(b)	402			
	50	960	1,920	75	5,310
Argentina					
Circulation	1.1	4.4			
C.B. deposits	3.8	10.8			
	4.9	15.2	310	160(i)	235
Brazil					
Circulation	4.8	20.3			
C.B. deposits	11.7	52.2(d)			
	16.5	72.5	439	200(i)	420(g)
Belgium					
Circulation	28.0(b)	75.4			
C.B. deposits	12.7(b)	56.3(e)			
	40.7	131.7	323	111	
Canada					
Circulation	.21	1.02			
C.B. deposits	2.50	6.19			
	2.71	7.21	266	171	162
Japan					
Circulation	3	136			
C.B. deposits	15	131			
	18	267	1,483	23	
Sweden					
Circulation	1.1	2.6			
C.B. deposits	4.3	7.3			
	5.4	9.9	183	112	180
Turkey					
Circulation	.19	.93			
C.B. deposits	.29	.70(c)			
	.48	1.64	342		420
Chile					
Circulation	.8	3.8			
C.B. deposits	1.9	6.7(f)			
	2.7	10.5	389	165	296(f)

(a)—As of June 1947. (b)—1939 base. (c)—Mar. '47. (e)—Partly estimated. (f)—May '47. (g)—Retail price index May '47. (h)—White Paper estimate. (i)—Estimated on the basis of industrial employment.

NOTE—Commercial Bank deposits cover all banks except: Belgium: three com. banks only; Brazil: including the Bank of Brazil; Canada: 10 chartered banks; France: four principal banks only; Great Britain: 11 London clearing banks.

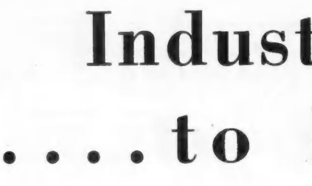
American textiles may be harder to sell abroad



A smaller foreign market for moving pictures is indicated

Industries Most Vulnerable ....to Export Decline....

By JOHN DANA



American exports in the future, as they have done in the most recent past, are bound to run at a rate measurably below the peak figures registered earlier this year, regardless of any export-stimulating measures currently proposed and likely to become effective before long. This doesn't mean that exports will shrink back to prewar levels, far from it! They will continue at a rate anywhere from twice to three times prewar average but barring unexpected and unusual conditions, they will hardly again roar along at an annual clip of some $18 billion as they did before a sharp contraction set in last June. That this will ultimately have an important bearing on many of our industries and corporations active in the foreign trade field, goes without saying. The writer in this article is attempting to assay such ultimate effects, where they will be felt most, where least, and the repercussions one must reasonably anticipate in the wake of decisive shifts of this nature.

Adoption of a Marshall plan along lines currently envisaged will no more than minimize the trend towards lower exports. For even if Government-sponsored shipments abroad should once more spurt under such an impetus, that stimulus will almost certainly be offset by a continuing decline in volume of commercial exports as dollar balances run out abroad and dollar exchange must be earned again the hard way. No politically feasible program to aid Europe alone can prevent a considerable drop in American exports simply because the dollar shortage extends beyond Europe, and overtures of extension of relief to Latin America have been politely rebuffed by Washington. This is an important point to remember, for exports to Latin America—now subject to severe restrictions—were a significant factor in our postwar export boom.

Further Drop in Exports

A $2.5 billion decline in exports foreseen for the second half of 1947 is expected to occur despite an outlay of $4.3 billion for "international affairs and finance" carried in the revised Federal budget for the fiscal year 1948. The Marshall Plan envisages additional payments of perhaps $3 billion to $5 billion a year in Europe over a certain period. If nearby aid under the Marshall Plan or under some stop-gap arrangement is sufficiently assured—as it well may be—then the export decline this year may be less. Europeans might then permit their dollar balances to fall to levels which would be considered dangerously low in the absence of some foreign aid plan; recent British official statements definitely point in this direction.

Much publicity has been given to British efforts to reduce the volume of their imports from this country following the unexpectedly rapid exhaustion of their $3.75 billion U.S. credit. Cuts in imports of tobacco, motion pictures, petroleum products and

even food items such as dried, canned and fresh foods, dried eggs and milk, fresh meat and cheese have been planned and put into effect, in most cases, despite resentment of American suppliers. Other European countries were forced to restrict their American imports. Perhaps less well-known is that since early May, such countries as Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay have all moved to reduce their imports from the United States.

Which Industry Groups Are Being Hit by Foreign Trade Decline?

(Amounts in millions of dollars)

U. S. EXPORTS

	Monthly Averge		1947			May-July 1947 Change	
Groups	1939	1946	May	June	July	In Dollars	Per Cent
Crude Materials	$44.0	$118.0	$143.4	$152.8	$95.5	—$47.9	—33.4%
Crude Foodstuffs	9.2	54.0	80.0	56.8	62.0	— 18.0	—22.5
Mfd. Foodstuffs	16.9	127.0	144.5	137.4	121.5	— 23.0	—15.9
Semi-manufactures	51.3	74.7	171.3	159.4	151.3	— 20.0	—11.7
Finished Manufactures	138.9	418.2	869.2	721.8	708.9	—160.3	—18.4
Total	260.3	791.9	1,408.4	1,228.2	1,139.2	—269.2	—19.1

The extent of the export decline since May, and how this decline has affected the broad commodity groups, is illustrated in the appended tabulation. Percentagewise, crude materials declined most, but in point of dollar volume, finished manufactures led with a drop of $160 million between May and July. More than half of the shrinkage in overseas sales has been concentrated in this group. Specific goods affected cover a wide range, from trucks and buses to industrial machinery and such items as rayon, nylon and other synthetic textiles, rubber products and cotton manufactures. In the crude materials groups, raw cotton was a big loser.

For at least the remainder of the year, falling exports are expected to serve as an anti-inflationary element, a brake on rising prices particularly in the durable goods industries, but also perhaps in other fields except food. Many shortages—aggravated by former heavy exports—may be relieved somewhat. There may even be some downward pressure on textile and clothing prices although this is less likely in view of the pressing nature of foreign demand for necessities.

More disruptive effects, however, would be bound to become apparent later, probably before mid-1948 unless effective steps are taken by implementing the Marshall approach, something that appears almost inevitable, and at least highly likely. Even stop-gap aid as currently envisaged will go far towards mitigating such adverse potentials. More important, however, and for the still longer run when the volume of our overseas shipments must decline substantially in any case, will be the adverse effect of the dollar shortage on the prospect for international trade as a whole, unless effective remedies can be applied.

From all the foregoing, it is amply evident that the bloom has come off our foreign business in many ways. It is no longer possible for an American manufacturer to sell abroad, anything, at any price. A shift in emphasis is taking place that is, increasingly, making for a highly selective trend, a trend that will be further stressed under the proposed foreign aid program. Even now luxury goods go begging while food, fuel and certain raw materials continue to flow out of the country in immense quantities. Manufactured consumer goods are increasingly difficult to sell abroad because of the formidable restrictions erected against their entry. Textiles no longer sell the way they did. Neither do radios, costume jewelry, fountain pens, cosmetics, nylon stockings, even cotton goods, tobacco, automobiles and refrigerators; razor blades, zippers and toys. Of course some types of goods no longer sought eagerly abroad will for some time at least find a fairly ready market at home, thus dwindling exports will hardly have any adverse repercussions on earnings prospects of companies affected. This is particularly true of certain durable goods including automobiles, refrigerators and other types. It certainly is true of capital goods such as freight cars, farm machinery, etc., where domestic shortages are severe.

The sixteen nations represented at the Paris Conference have recently submitted their "bill," that is a detailed list of requests made within the framework of a Marshall Plan. A breakdown of these requests, as officially tabulated and shown below, gives the American business man for the first time a rough idea what the Marshall plan may mean to him. While the figures presented are subject to considerable scaling down, if only because such extensive requests can hardly be squeezed into our already severely strained productive system, they do show exactly where greatest export emphasis will be, where de-emphasis in form of export restrictions will have to be reckoned with.

Quite obviously, most types of producers goods will continue to boom for a long time under a Marshall Plan, for these are the goods for which need abroad is greatest and most urgent next to food and fuel which of course take first place on the list. (See table.) The bulk of the financial aid under a Marshall Plan will be used for the latter. For capital goods, to the extent that they cannot be obtained from us under the proposed aid program, foreign countries will be willing to spend their remaining dollar balances and to that (*Please turn to page* 101)

Breakdown of the Goods Which Europe Wants from the U. S. Under a Marshall Plan

	1948	1948-51
	($ million)	
Food, Feed and Fertilizer	$1,500	$5,400
Petroleum Products	510	2,200
Iron and Steel Products	370	1,200
Farm Machinery	370	1,100
Coal and Other Solid Fuels	340	700
Inland Transportation Equipment	200	490
Petroleum Equipment	170	555
Electrical Equipment	150	500
Steel Plants	100	400
Timber	100	400
Mining Machinery	80	220
Timber Equipment	10	30
Miscellaneous*	2,150	7,200
Total	$6,050	$20,395

*—Includes such items as cotton, wool, woodpulp, hides, leather, non-ferrous metals and miscellaneous machinery.

Investment Audit of CITIES SERVICE

By GEORGE L. MERTON

The fact that Cities Service Company's star of destiny has swerved from the path originally charted for it by Mr. Henry L. Doherty, its founder, may be traced to decisions of a New Dealish Congress a dozen years ago. In the reform wave of the 1930's, legislation was enacted which was destined years later to transform this one-time gigantic public utility holding company into an up and coming, fully integrated oil concern.

The series of complicated maneuvers by which the divestment program ordered by the Securities & Exchange Commission in 1944 has been accomplished need not be reviewed in detail here. Suffice it to say, that it now has been almost completed and all but two of the dozens of operating electric properties laboriously assembled in the hurly burly consolidation scramble of the 1920's have been dispersed again. The two major units still controlled, Toledo Edison and Ohio Public Service, are to be cast adrift as soon as favorable conditions permit. Then management will be free to devote its entire attention to development of its rich petroleum and natural gas resources and to improve its competitive position in the oil industry.

Substantial progress already has been made in simplifying the capital structure and in strengthening the financial position, but more remains to be done before stockholders may expect to participate more fully in the encouraging earnings improvement made possible by retirement of preferred stock claims. On basis of official estimates prepared in connection with the capital adjustment this year, the company anticipates earnings of about $6.50 to $7.50 a share, and in view of the promising outlook for the industry these forecasts seem conservative. Apparently management feels that a large proportion of profits should be plowed back into the business, however, and this attitude seems to point to limitations on dividend distributions, at least for the time being.

Dynamic Changes

In view of the dynamic changes that have taken place in recent months and the promising outlook for future growth, Cities Service deserves a closer examination. Progress achieved in getting its house in order has been obscured by uncertainties over the final outcome of negotiations and litigation in connection with the divestment program. Proceeds of sales of properties have been devoted to strengthening the company's financial position and to modernizing equipment in the oil division. A capital simplification plan recently adopted has eliminated large amounts of preferred stock and dividend accumulations, and has lowered interest charges. Additional debt retirement is contemplated as quickly as funds can be obtained through disposal of remain-

ing electric properties now numbering only two.

Meantime, exceptional prosperity in the oil industry has provided a basis for earnings improvement with which to fatten common stockholders' equity. The groundwork seems to have been laid for recouping some of the losses experienced by those who have weathered the storms of the past decade which saw a "reverse split" that involved issuance of one common share for each ten held.

In the recovery in Cities Service shares in recent months, the market has been taking into consideration financial progress that has taken place in the last ten to fifteen years. While preferred holders went without dividends, funds were devoted to debt retirement and to capital outlays to expand properties. Indebtedness and preferred stock claims to the extent of more than $200 million have been eliminated, working capital has been enlarged by $170 million, and capital outlays totaling in excess of $400 million have been completed—all benefits which now accrue to holders of the junior stock.

Before appraising recent operations and the near term outlook, it may be well briefly to review the major changes in capitalization recently made. A new issue of about $115 million 30-year 3 percent sinking fund debentures was offered in exchange for outstanding preferred stock plus arrears. The senior stock was taken at its call price—presumably because the company is not being dissolved. Approximately $40.6 million of debenture 5s due in 1950 were called for redemption in July, while the remaining $59.9 million 5s of 1958 to 1969 are to be retired with proceeds of sales of other utility assets.

New Capitalization

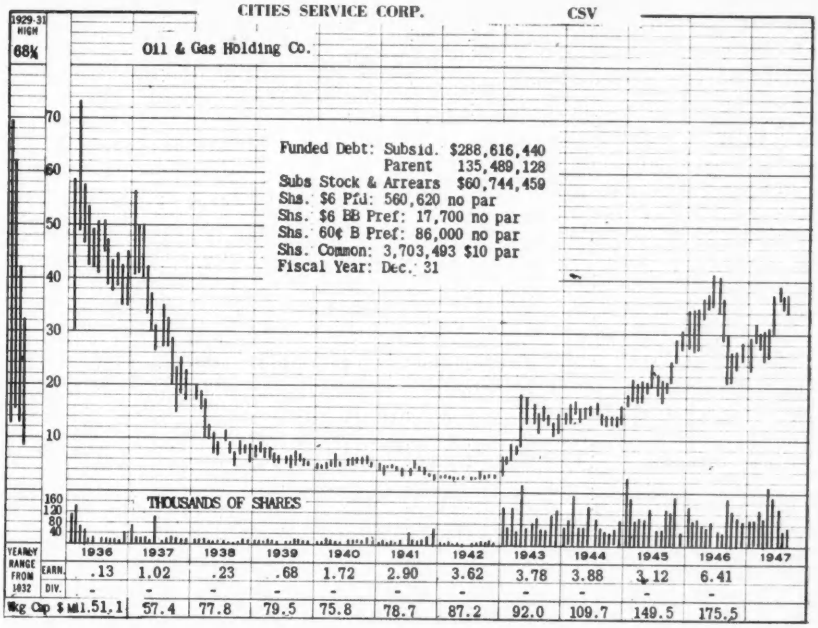
Giving effect to the adjustment, the pro-forma statement shows outstanding indebtedness of about $461 million, of which about $285.9 million represents obligations of subsidiaries. Preferred stock of subsidiaries is outstanding in the amount of about $49 million and minority interests are given a stated value of about $30 million. Common shares outstanding number 3.7 million. By contrast with capitalization prior to the change, indebtedness has been increased about $75 million, but more than $115 million in preferred stock (at the redemption price) and dividend arrears have been eliminated, a net gain for common stockholders of $35 million.

From the standpoint of the holder of common shares, what is the effect of the changes accomplished this year? In the first place, the vicissitudes of the utility business in an inflationary cycle have been avoided — or will have been when Toledo Edison and Ohio Public Service have been segregated. Second, capital has been simplified to the extent that financial progress of the last decade now may flow through to the junior shares. The way has been paved for resumption of common dividends. Third, additional petroleum facilities have been acquired — notably the modern refinery at Lake Charles, Louisiana, of which more will be said later. The stage has been set for holders of the common to participate in the present favorable earnings that otherwise would have been reserved for settlement of preferred dividend accumulations.

Management still has much to do to improve properties and to strengthen the company's financial structure, but contemplated measures can be carried out more effectively now that the integration program has been virtually completed. The company needs to develop large additional crude oil production to balance refining capacity. In recent years refinery

Cities Service Company

	As of December 31, 1940	1946	Change
ASSETS	(000 omitted)		
Cash	$ 63,248	$169,551	+$106,303
Marketable securities	352	6,063	+ 5,711
Receivables, net	26,624	24,107	— 2,517
Inventories	33,811	57,185	+ 23,374
TOTAL CURRENT ASSETS	124,035	256,906	+ 132,871
Plant and equipment	910,856	841,678	— 69,178
Less depreciation	220,406	296,453	+ 76,047
Net property	690,450	545,225	— 145,225
Other assets	32,895	57,140	+ 24,245
TOTAL ASSETS	$847,380	$859,271	+$ 11,891
LIABILITIES			
Notes payable	$ 11,279	$ 16,655	+$ 5,376
Accounts payable and accruals	28,016	49,644	+ 21,628
Reserve for Federal income taxes	6,857	13,139	+ 6,282
Customers deposits	4,060	4,363	+ 303
TOTAL CURRENT LIABILITIES	50,212	83,801	+ 33,589
Deferred liabilities	7,364	4,930	— 2,434
Subsidiary Pfd. Stock not owned	103,646	49,100	— 54,546
Minority interest	24,161	30,585	+ 6,424
Long term debt	482,347	390,113	— 92,234
Reserves	37,779	33,450	— 4,329
Capital	96,035	95,710	— 325
Surplus	45,836	171,582	+ 125,746
TOTAL LIABILITIES	$847,380	$859,271	+$ 11,891
WORKING CAPITAL	$ 73,823	$173,105	+$ 99,282
CURRENT RATIO	2.5	3.1	+ 0.6
Book Value per Share	$ 13.99	$ 46.91	+$ 32.92



System Operating and Property Statistics for 1946

OIL AND REFINERIES:	
Company net crude oil prod. (inc. royalties) barrels	26,318,000
Number of wells owned	7,679
Miles of wholly-owned oil pipe lines	1,597
Daily refining capacity barrels of crude oil)	196,000
Oil storage capacity (barrels)	26,954,124
Crude oil processed (barrels)	57,613,000
Sales of refined products (gallons)	3,028,791,842
CRUDE OIL TRANSPORTED (barrels):	
Subsidiary pipe lines	41,041,000
Affiliated pipe lines	117,505,000
*Cities Service tankers	7,844,000
Number of tank cars owned and leased	1,681
Marine equipment capacity barrels)	723,500
MANUFACTURED AND NATURAL GAS:	
Sales in M cubic feet	279,935,000
Number of customers	590,169
Number of gas wells owned	2,209
Miles of natural gas mains owned	15,743
Casinghead gasoline produced (gallons)	148,876,000
Population served	2,700,000
Estimated Crude Oil Reserves (million barrels)	350
Estimated Crude Oil Reserves per Share (barrels)	95

*—Includes Refined Products.

runs have almost doubled while net crude output has remained stationary at about the level of ten years ago. This situation places the company at a disadvantage with its large competitors, many of which produce a high percentage of refinery requirements. Cities Service has production for only about 45 percent of its refinery capacity.

Moreover, working capital appears to be somewhat inadequate for a growing oil concern. Many of the stronger representatives of the industry have working capital equaling if not exceeding funded debt. Hence, Cities Service management may be expected to take steps not only to reduce indebtedness but to enlarge working capital as well.

Now for a closer look at Cities Service Company's oil properties and growth potentialities. Records indicate the company held leases covering about 4 million acres of oil and gas lands in the Southwest at the end of last year. Crude oil reserves are estimated around 350 million barrels and natural gas reserves are said to amount to more than 10 trillion cubic feet, representing 5% or more of the proven natural gas reserves in this company. A comprehensive pipe line system is owned for gathering and transporting crude oil to refineries as well as for servicing other users.

Basis for anticipating further growth is found in the fact that earnings potentialities of the petroleum division have not been fully developed in the past. Detailed figures of the projected earnings for this year indicate that 68 percent of this year's revenues are expected to be derived from petroleum operations. If utility operations were excluded, the oil business apparently would be nearer 80 percent of the total. Yet only about 39 percent of the system's earnings power seems likely to be contributed by oil production and refining. On the other hand, natural gas operations which account for about 18 percent of revenues seem capable of contributing almost 25 percent of earning power.

One obvious reason for the unimpressive showing in profits from refining is the fact that amortization charges on the large Lake Charles refinery have been exceptionally heavy. The schedule calls for sharp reductions in charges in the future so that improvement in earnings power at this plant may be extraordinarily favorable in coming years. The Lake Charles refinery is regarded as one of the most efficient in the country. It was constructed at a cost of more than $75 million to meet urgent wartime gasoline requirements. Although its current value is estimated at about $55 million, it is generally agreed that reproduction cost under today's conditions probably would exceed $100 million. Accordingly, this property is regarded as one of the company's most valuable fixed assets. Natural gas operations, which have contributed to earnings, also seem susceptible of expansion. This division produces and transports gas to companies serving communities in Missouri, Kansas and Oklahoma. The two subsidiary companies engaged in gas operations are estimated to have a value of slightly less than $100 million.

Investment in Natural Gas

In addition to these directly controlled units, Cities Service has a dominating position in Arkansas Natural Gas. Besides more than 800,000 shares of preferred stock, Cities Service owns 75 percent of the common shares and almost 25 percent of the Class "A" shares. This investment is estimated to be worth approximately $25 million. In time, subsidiaries of Arkansas Natural Gas except those not in the natural gas business may be consolidated with the parent company. It is too early yet to say what arrangement might be worked out but there seems to be an opportunity for Cities Service to obtain a larger return on its investment than now is available through dividends on the preferred stock which comes to slightly more than $500,00 annually.

(Please turn to page 105)

Operating Record — As Reported

(000 omitted)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946
Gross Revenues	$241,256	$215,336	$220,370	$238,690	$260,947	$255,622	$273,403	$331,383	$358,482	$333,175
Depreciation and Depletion	28,580	25,936	28,650	28,995	30,333	30,125	30,216	39,075	52,038	35,480
Operating Income	43,984	29,244	31,425	34,137	37,838	35,921	35,703	36,285	35,123	44,690
Operating Margin	18.2%	13.5%	14.2%	14.3%	14.5%	14.1%	13.1%	10.9%	9.8%	13.4%
Available for Fixed Charges	$ 46,718	$ 36,422	$ 36,901	$ 38,737	$ 43,640	$ 41,447	$ 42,342	$ 40,136	$ 36,983	$ 47,194
Fixed Charges	32,949	32,079	30,372	28,832	28,247	24,125	21,680	20,901	20,281	18,269
Net Income	9,615	5,814	6,588	9,928	14,283	16,113	17,558	17,874	15,060	27,253
Net per Share	$ 1.02	$ .23	$ .68	$ 1.72	$ 2.90	$ 3.40	$ 3.79	$ 3.88	$ 3.12	$ 6.41

Common Stock Investments

for . . . . Diversification and . . . . Stability

By RICHARD COLSTON

Some months ago, the Magazine of Wall Street published an article entitled "What's In A Name," calling attention to many concerns where diversification policies had brought many non-related enterprises into the corporate family. Going a step further, we now discuss special situations where corporate investments in shares of another company permit interesting comparisons of their relative share values. Upon examination, it may appear that an indirect investment through the "Parent Company" shares is more advantageous than a direct purchase of the secondary stock, based upon price considerations in the main.

Outside Investments

Corporate holdings such as we have in mind do not constitute interests in subsidiaries or necessarily even affiliates; rather they classify as ordinary investments. Expediency or a desire to employ surplus funds often leads corporate managements to acquire shares of the kind under discussion, quite aside from any consideration of control. The breadth of our subject also permits inclusion of certain types of holding companies, the price of whose shares frequently is out of line with the value of their portfolios.

Besides revealing opportunities for constructive selectivity between the shares of a given concern and those of its corporate holder, our study in some instances may give support to the investment merits of the latter because of enhanced earnings potentials, diversification and stability. Many investors do not realize how importantly a company's portfolio holdings may supplement results from its normal activities. Unless this factor is clearly understood, entirely too much weight is likely to be placed upon the class of enterprise suggested by the corporate title. But even where emphasis on the status of the "parent" is fully justified, the price of its shares sometimes much undervalues the merit of its investments. In cases of this sort, it often happens that an alert investor can indirectly buy these same securities at a substantial discount from their current price.

To assist our readers towards a clearer understanding of this subject, we append a table listing 27 concerns, some operating and a few holding companies, who hold sizable stock investments in other corporations. In statistical form, we show the relative prices of the "Parent" shares and those of others it holds, the net value of the former after allowing for the latter, the number of shares held, and the number and market value percentages of the two. Study of these comparisons will disclose some interesting relationships of which the reader may have been unaware.

Importance of Fundamentals

To apply this information constructively, though, it is necessary to probe deeply into the fundamentals of both the owning company and its investments. Within the space at our disposal, it is not practical for us to discuss the numerous concerns under review with more than very casual comments. Hence our remarks will be confined to a brief explanation of the various situations, with the aspect of relative share prices a major consideration.

Let's asume that the reader is considering a purcase of either the parent company shares or the "secondary" issues, and has acquired considerable knowledge of their basic merits. Our task is to assist in determining the relative price merits as revealed by the statistics, bolstered by a few supplementary comments.

Suppose an investor were considering a purchase of U.S. Industrial Chemical shares, currently selling around 42. As it happens, Air Reduction owns approximately 123,000 shares of this issue, along with 28,571 shares of Vanadium Corporation. The total value of these holdings equal 2⅛ points of the current price of Air Reduction's shares, or 7½%. This percentage is not large, but serves theoretically to reduce the price of the parent company's stock to 25⅞. Waiving consideration of Vanadium, a poor

earner in recent years, the investment in U.S. Industrial is bringing indicated dividends of about $4 per share. This latter concern, however, has paid dividends regularly only since 1941, whereas the record of Air Reduction extends back to 1917. Though both concerns are financially strong and enjoy favorable potentials, the investor might conclude that, everything considered, the Air Reduction stock seems the better choice, as he still would acquire an indirect investment in U.S. Industrial Chemical.

Glancing towards the bottom of our list, it will be seen that U.S. Industrial Chemical, in turn, owns an interest in another concern. Ownership of 141,000 shares of National Distillers, currently worth around $3 million, provides substantial diversification. This investment accounts for 14¾% of the current market value accorded to the parent company shares. Now the question looms as to whether an indirect investment in National Distillers, through U.S. Industrial Chemical, would prove more satisfactory than a direct purchase. If the confidence in the business of the owning company over the long term were a transcendent factor, the adjusted price of its shares to 35¾ from their current level of 42 might lend added appeal, against a relative price of 22 for National Distillers. This again is something the reader must decide for himself. On a basis of diversification, it is interesting to note that directly or indirectly, Air Reduction receives income from both of these concerns.

Another Interesting Example

American Metal Company Ltd., though chiefly engaged in the refining of copper and other metals, in some years derives about *(Please turn to page 106)*

Indirect Investments in Common Stocks

Number of Common Shares Outstanding	Recent Market Price: As Quoted	Recent Market Price: After Deducting Value of "Owned" Stocks*	Company	Ownership in Other Companies: Number of Shares Held	Company	Shares Owned per "Parent Co." Share	Recent Price per Share of Owned Stock	% of Market Value of "Parent Co." Stock Covered by This Ownership
2,736,856	$28	$25⅞	Air Reduction	122,907 28,571	U. S. Industrial Chemical Vanadium Corp. of Amer.	.045 .01	$42 18	7½%
2,214,099	190	175⅛	Allied Chemical & Dye	144,900 270,000 208,309	U. S. Steel Air Reduction Owens-Illinois Glass	.066 .122 .094	73 28 71	7¾
250,000	34	27⅜	American Distilling	184,702	Moxie Co. "B" a)	.74	9	19½
410,000	38	33⅜	American-Hawaiian S.S.	86,070	Eastern S.S. Lines	.21	22	12¼
1,005,542	23	16⅞	American Mach. & Fdry.	405,000	Intl. Cigar Machinery	.404	15	26½
1,224,585	29	11	American Metal Co., Ltd.	5,352,735 1,630,149	Rhodesian Selection Trust Roan Antelope	4.37 1.33	2 7	62
823,427	51	6	Atlantic Coast Line R.R.	823,427	Louisville & Nashville R.R.	1.0	45	88½
1,875,299	17	11⅜	Baldwin Locomotive Wks.	382,920 147,808	Midvale Co. General Steel Castings	.204 .079	24 10	33
13,400,000	12	3	Canadian Pacific Rwy.	1,682,723	Consol. Mining & Smelting	.126	72	75
433,444	14	5¾	Checker Cab Mfg.	445,787	Parmelee Transp. Co.	1.03	8	59
1,946,668	20	17½	Dome Mines, Ltd.	599,993	Sigma Mines	.308	8	12½
11,121,962	190	137	DuPont E. I.)	10,000,000	General Motors	.9	59	28
572,132	4	(b)	Eastern States Corp.	1,000,000	St. Regis Paper	1.75	11	(b)
857,400	32	24⅝	Ely & Walker Dry Goods	177,450	Pacific Mills	.204	36	23
601,087	17	14½	Genl. Precision Equipment	60,400	Twentieth Centnry-Fox	.10	25	14¾
9,076,202	69	61⅛	Gulf Oil	1,296,100	Texas Gulf Sulfur	.143	55	11½
1,000,000	11	4⅞	Hecla Mining	1,264,500	Polaris Mining	1.264	5	55½
1,181,895	21	18	Heyden Chemical	100,000	American Potash & Chem. "B"	.085	35	14¼
500,000	18	16¾	Holly Sugar	90,500	Holly Oil	.181	7	7
1,347,145	48	(c)	Mission Corp.	1,345,593 582,657	Tide Water Associated Oil Skelly Oil	1.0 .43	21 86	(c)
13,167,754	18	7	Pennsylvania R.R.	2,397,284	Norfolk & West. (common)	.182	60	61
5,170,714	11	9¾	St. Regis Paper	698,529	Taggart Corp.	.135	10	11½
15,284,830	39	25¾	Standard Oil of Indiana	1,651,077	Standard Oil of N. J.	.18	74	34
27,333,742	74	33¼	Standard Oil of N. J.	13,300,000 18,897,127	Humble Oil & Refining Imperial Oil, Ltd.	.478 .693	68 12	55
499,241	42	35¾	U. S. Industrial Chemical	141,000	National Distillers	.283	22	14¾
695,923	43	35⅛	U. S. Pipe & Foundry	272,500	Sloss-Sheffield Steel & Iron	.392	20	16½
9,703,608	47	30¾	Woolworth (F. W.) Co.	15,810,000	Woolworth, Ltd.	1.63	10	34½

*—Figures only cover stocks shown in this tabulation; in some cases, many other Valuable Stocks are held.

(a)—Assuming conversion of Moxie Preferred holdings into common "B" stock.

(b)—Value of the holdings of St. Regis Paper Co. per share of Eastern States Corp. is equal to $19.25, thus it is $15¼ above the market price of Eastern States.

(c)—Value of the holdings of Skelly Oil and Tide Water Associated Oil per share of Mission Corp. is equal to $58; thus it is $10 above the market price of Mission Corp.

Photo by Lehigh-Portland

With assurance of excellent business for a prolonged period, cement manufacturers have been undertaking extensive expansion and improvement of facilities

1948 Outlook for CEMENT COMPANIES

By H. S. COFFIN

With construction activity enjoying a vigorous spurt that bids well to lead into a sustained period of active operations, prospects of the cement industry look particularly promising. Cement, one of the principal building materials, should be in heavy demand for a considerable period as long-deferred construction insures large business for at least some years. By the same token, indicated peak operations, in view of the leverage inherent in large plant overhead, should spell excellent and well-maintained earnings for leading producers, discussed individually in the following pages.

Normally, industrial and road building takes by far the largest share of cement output, thus overall sales reflect cyclical swings particularly of construction activity of the non-residential type. In the more immediate future, the cyclical factor is likely to be less important, however. Government restrictions on all types of non-residential building have been removed and activity of this kind promises to be heavy, supported by revival of public construction which may become an important stabilizing factor should other building activity begin to lag.

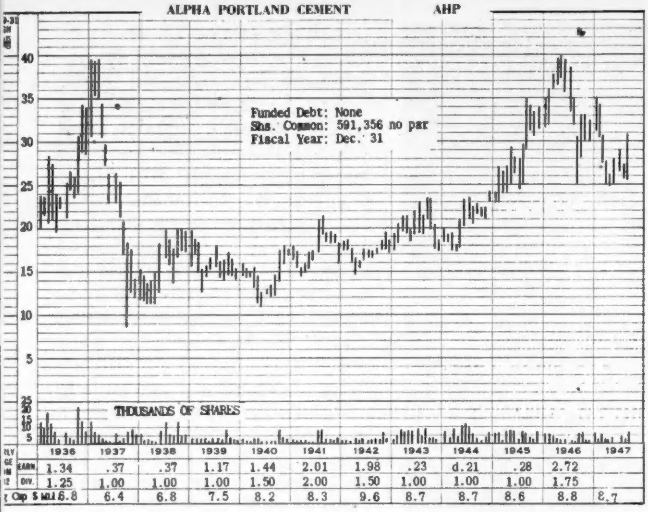
Since VJ-Day, construction of new homes and factories, rather than public works, has greatly stimulated cement demand while extensive plans for new highways, dams, schools and other public works projects were deliberately left more or less in the blue print stage. Despite high building costs which now seem to act as less of a deterrent than a few months ago, new construction during the first eight months of this year amounted to $7.72 billion against $5.86 billion in the comparable 1946 period, a gain of nearly 32%. For the month of August alone, the Department of Commerce placed new construction at $1.2 billion compared with $1.1 billion in July, reflecting an unexpected and unseasonal expansion of activity during the summer months, particularly in the residential field.

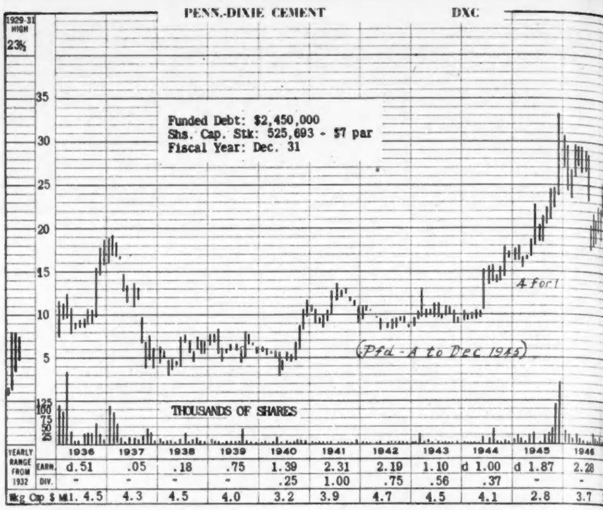
Production of cement during the first six months of this year totalled 84.2 million barrels, 21% more than in the same period last year. Shipments however were only 77.9 million barrels, up about 5% and indicating a moderate gain in factory inventories. Shortage of transportation accounted in large measure for this accumulation; incoming orders have continued, and are still running, at a highly satisfactory rate. Fact is that inventories are still markedly below the prewar norm, even the levels obtained during periods when demand was far less than at present.

With assurance of excellent prospects for a prolonged period, leading cement makers have been undertaking extensive improvements and additions, this despite the fact that industry capacity at present is not yet fully utilized. Thus in spite of rising output this year, the highest percentage of capacity so far used has been scarcely more than 75% though individual company experience in this respect has naturally varied a great deal, depending on local demand conditions which are apt to alter sales potentials from time to time. Some producers still face fairly heavy capital expenditures for replacement of equipment which was practically unobtainable during the war.

Absence of foreign competition, a serious factor in prewar years, is another reason why the industry is looking with confidence into the future. Though prewar cement imports by volume were not particularly heavy because of the limited area within which such competition could be effective, they frequently caused severe price disorganization, in the end affecting the entire industry. Resumption of this competition may be a long way off.

(*See pages* 88 *and* 89 *then please turn to page* 101)





ALPHA PORTLAND CEMENT COMPANY

BUSINESS: Company operates 8 modern plants in New York, Pennsylvania, Illinois, West Virginia and Alabama, with a total rated capacity of about 12 million barrels annually. Some 6,500 acres of lime quarries are owned.

OUTLOOK: Territory served by this concern includes some areas where construction currently is very active. According to the Department of Commerce, every one of the States in which the company's plants are located is experiencing an uptrend in demand for cement. Since the trademark "Alpha" is well established, the outlook for continued high volume holds a good deal of promise. Results for 12 months ended June 30, 1947 indicate good cost control; while volume rose from $9.5 million in the previous year to $13.5 million, per share net more than doubled despite increased charges for maintenance and repairs. Due to the current sales uptrend, net for the calendar year 1947 may equal $3 per share. As working capital of $8.7 million seems ample for the company's present requirements, the outlook for increased dividends is good.

FINANCES: Capitalization is simple, with no bonded debt or preferred ahead of 591,356 shares of no par common. Current ratio of 5.5 attested to strong and liquid financial position.

MARKET ACTION: Recent price of 31 compares with this year's high of 35 and a low of 24⅞. At current market, the stock sells about ten times indicated 1947 net.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1940	June 30, 1947 (000 omitted)	Change
ASSETS			
Cash	$ 5,007	$ 2,058	—$ 2,949
U. S. Government securities	1,910	4,932	+ 3,022
Receivables, net	611	1,274	+ 663
Inventories	1,255	2,207	+ 952
Other current assets	146	198	+ 52
TOTAL CURRENT ASSETS	8,929	10,669	+ 1,740
Plant and equipment	34,809	34,433	— 376
Less depreciation	22,464	24,278	+ 1,814
Net property	12,345	10,155	— 2,190
Other assets	185	878	+ 693
TOTAL ASSETS	$21,459	$21,702	+$ 243
LIABILITIES			
Accounts payable and accruals	$ 257	$ 916	+$ 659
Reserve for taxes	437	1,022	+ 585
TOTAL CURRENT LIABILITIES	694	1,938	+ 1,244
Reserves	639	652	+ 13
Capital	16,760	15,375	— 1,385
Surplus	3,366	3,737	+ 371
TOTAL LIABILITIES	$21,459	$21,702	+$ 243
WORKING CAPITAL	$ 8,235	$ 8,731	+$ 496
CURRENT RATIO	12.8	5.5	— 7.3

PENNSYLVANIA-DIXIE CEMENT COMPANY

BUSINESS: Company operates more than half a dozen plants located along the Atlantic Seaboard and in the Northeastern States. The business is of many years standing.

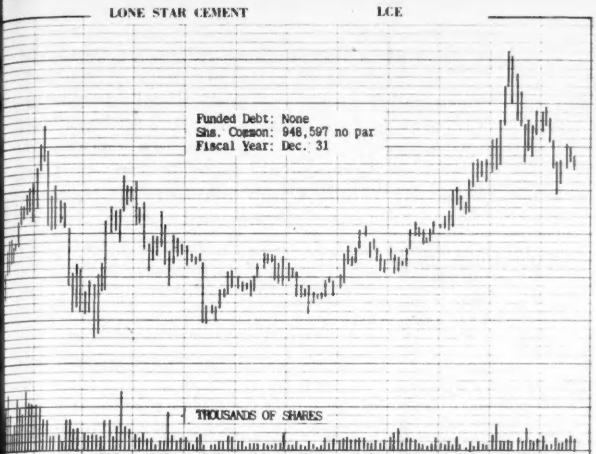
OUTLOOK: Following a long period of drab earnings, this concern experienced a decided turn for the better in 1946. The improvement is being extended in 1947, with a good prospect of several years of prosperity in the offing. Competition in the area served by Penn-Dixie has always been severe; current heavy demand and higher selling prices now point to good earnings recovery. Sales are expanded by shipments abroad, as well as by higher domestic deliveries; in contrast to prewar when low priced imports of cement offered competition near the Seaboard, the tide has turned in the other direction. It would appear that Penn-Dixie is in a favorable position to get a good share of the large over-all business in sight, not only as regards cement but through the sale of sand, lime and clinkers as well. Despite a strike last May, net per share for 1947 may exceed $2.25. Quarterly dividend rate is 25 cents per share.

FINANCES: A recapitalization in 1945 retired a preferred stock issue, and since then a $4.25 million term loan has been reduced by about 30%. To carry heavier inventories, though, bank loans of $1 million have been incurred.

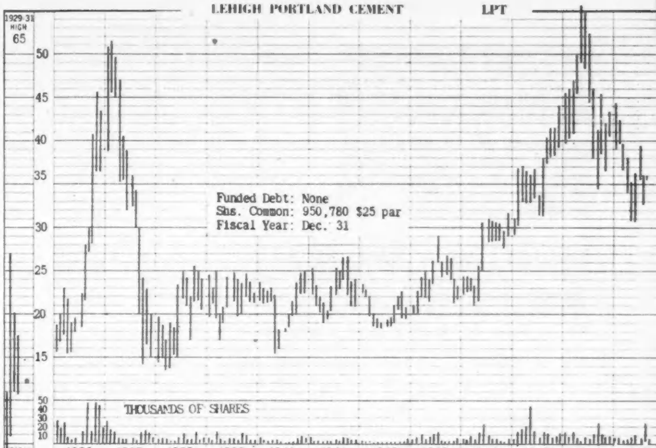
MARKET ACTION: Penn-Dixie shares have exhibited considerable volatility with a 1947 range of 24⅜-13½. Recent price of 19 reflects the improved earnings outlook.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1940	June 30, 1947 (000 omitted)	Change
ASSETS			
Cash	$ 2,326	$ 1,630	+$ 696
Receivables, net	621	1,190	+ 569
Inventories	1,339	3,182	+ 1,843
TOTAL CURRENT ASSETS	4,286	6,002	+ 1,716
Plant and equipment	34,853	23,985	— 10,868
Less depreciation	27,519	18,167	— 9,352
Net property	7,334	5,818	— 1,516
Other assets	289	1,146	+ 857
TOTAL ASSETS	$11,909	$12,966	+$ 1,057
LIABILITIES			
Notes payable	$ 400	$ 1,000	+$ 600
Accounts payable and accruals	472	922	+ 450
Reserve for taxes	207	353	+ 146
TOTAL CURRENT LIABILITIES	1,079	2,275	+ 1,196
Long term debt	5,100	2,450	— 2,650
Reserves	183	252	+ 69
Capital	3,430	3,682	+ 252
Surplus	2,117	4,307	+ 2,190
TOTAL LIABILITIES	$11,909	$12,966	+$ 1,057
WORKING CAPITAL	$ 3,207	$ 3,727	+$ 520
CURRENT RATIO	3.9	2.6	— 1.3



1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
3.23	3.94	2.58	3.49	3.69	4.55	3.63	2.87	2.11	2.85	5.58	
2.50	3.75	3.00	3.25	3.50	4.00	3.25	3.00	1.75	2.25	4.00	
11.10.0	9.3	10.1	12.1	13.6	14.9	16.1	15.6	17.7	18.6	21.3	



YEARLY RANGE FROM 1932		1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
	EARN.	2.91	1.33	·63	2.71	2.41	2.78	2.83	1.98	.24	.82	3.18	
	DIV.	2.00	1.50	1.00	1.50	1.50	2.00	1.50	1.50	1.00	1.00	1.50	
Wkg Cap $ Mil		12.1	12.6	12.3	10.6	10.7	10.9	12.1	12.8	12.5	12.5	13.5	

LONE STAR CEMENT CORPORATION

BUSINESS: Company's operations are international in character, with 15 modern plants in the United States and others in Argentina, Brazil, Uruguay and Cuba. Annual capacity of about 25.5 million barrels is expected to expand.

OUTLOOK: Though sales of $39.8 million in 1946 established a peak record since 1900, a volume of $20.9 million for the first half of 1947 indicates that further volume gain may be in sight. Outlays for new facilities in 1946 amounted to nearly $4.3 million, and construction to cost $7.9 million is under way or planned. As Lone Star makes five different kinds of cement and its trade name is firmly established, it should get its full share of business in the various active markets it serves. Despite higher costs, volume gains in the first half of the current year have widened profit margins compared with a year earlier. Net per share for the first six months of 1947 rose to $2.81 from $2.21 in the comparable 1946 period. It is estimated that full year net may be around $6 per share, with the prospect of further improvement after new facilities become productive.

FINANCES: Lone Star's simple common stock capitalization leaves room for financing with senior securities should working capital become depleted by heavy expansion costs. However, net current assets of $21.3 million at the beginning of the current year were of record proportions, appear large enough to meet foreseeable needs.

MARKET ACTION: Recent price of 68 compares with 1947 range of 79¾-58⅛. Based upon prospective earnings for 1947, the price-earnings ratio is about eleven.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1940	Dec. 31, 1946	Change
		(000 omitted)	
ASSETS			
Cash	$ 6,174	$ 7,804	+$ 1,630
U. S. Government securities	2,634	7,970	+ 5,336
Receivables, net	1,952	2,925	+ 973
Inventories	5,442	8,062	+ 2,620
TOTAL CURRENT ASSETS	16,202	26,761	+ 10,559
Plant and equipment	70,047	76,631	+ 6,584
Less depreciation	40,657	50,455	+ 9,798
Net property	29,390	26,176	— 3,214
Other assets	2,235	2,321	+ 86
TOTAL ASSETS	$47,827	$55,258	+$ 7,431
LIABILITIES			
Accounts payable and accruals	$ 1,096	$ 1,984	+$ 888
Reserve for taxes	1,440	3,427	+ 1,987
TOTAL CURRENT LIABILITIES	2,536	5,411	+ 2,875
Consolidated adjustment account	71	....	— 71
Reserves	1,036	2,457	+ 1,421
Capital and paid-in surplus	33,027	32,246	— 781
Earned surplus	11,157	15,144	+ 3,987
TOTAL LIABILITIES	$47,827	$55,258	+$ 7,431
WORKING CAPITAL	$13,666	$21,350	+$ 7,684
CURRENT RATIO	6.4	4.9	— 1.5

LEHIGH PORTLAND CEMENT COMPANY

BUSINESS: Output from this concern's 14 strategically located plants accounts for about 10% of total domestic production. Eastern and middle Western States provide its main markets. Raw materials supply is assured by ownership of more than 10,000 acres of mineral lands.

OUTLOOK: Through improvements and modernization of facilities, planned for completion by the end of the current year, the company will be in excellent position to capitalize upon the highly promising demand potentials that appear in the offing. During 1946, Lehigh spent $2 million for capital improvements and outlays for 1947 may total $2.8 million. Additionally, longer range plans include acquisition of some $4 million worth of new machinery and equipment, funds for which have already been provided by earmarking a corresponding amount of Government securities held in the company treasury. Prospective increased capacity spells better profit margins and higher earnings. For the 12 months ended June 30, 1947, per share net rose sharply to $3.39. It would not be surprising if 1947 net of better than $3.50 is reported. And for several years to come earnings may be equally satisfactory. Earnings prospects beyond appear equally favorable.

FINANCES: Finances are strong and liquid, with current liabilities covered by a wide margin by both cash holdings and marketable securities.

MARKET ACTION: Recent price of 37¾ affords a yield of about 4%. Price-earnings ratio, based on probable 1947 net, is 10.8. Price range for 1947: High 44½, Low 30½.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1940	Dec. 31, 1946	Change
ASSETS		(000 omitted)	
Cash	$ 4,562	$ 4,095	—$ 467
Marketable securities	2,639	6,182	+ 3,543
Receivables, net	1,423	1,144	— 279
Inventories	3,824	4,933	+ 1,109
TOTAL CURRENT ASSETS	12,448	16,354	+ 3,906
Plant and equipment	48,245	48,884	+ 639
Less depreciation	24,650	29,538	+ 4,888
Net property	23,595	19,346	— 4,249
Other assets	2,038	6,284	+ 4,246
TOTAL ASSETS	$38,081	$41,984	+$ 3,903
LIABILITIES			
Accounts payable and accruals	$ 707	$ 941	+$ 234
Reserve for taxes	1,011	1,617	+ 606
Other current liabilities	....	237	+ 237
TOTAL CURRENT LIABILITIES	1,718	2,795	+ 1,077
Minority interest	52	....	— 52
Reserves	1,093	1,000	— 93
Capital	24,924	24,862	— 62
Surplus	10,294	13,327	+ 3,033
TOTAL LIABILITIES	$38,081	$41,984	+$ 3,903
WORKING CAPITAL	$10,730	$13,559	+$ 2,829
CURRENT RATIO	7.2	5.8	— 1.4

Evaluating Stocks Selling at . . . VERY LOW PRICE EARNINGS RATIOS

By PHILIP DOBBS

So many political and economic problems since VJ-Day have arisen to harry and confuse investors, that to establish sound judgment in readjusting portfolios has become increasingly difficult. Currently the crop of uncertainties seems to have grown top-heavy, with the result that public interest in the stock market is lagging, and share prices generally reflect extremely cautious valuation of future prospects. The usual yardsticks involving yields and price-earnings ratios are applied with hesitancy because of doubt as to their dependability. But while a "wait and see" attitude quite properly may be characteristic of investor thinking for some time to come, the relationship of share prices to earnings eventually is bound to return to something more closely resembling normal. Under current conditions, though, decided discrimination must be exercised in determining whether or not the price of this or that stock is properly geared to earnings potentials.

As matters now stand, with the Dow Jones Industrial Averages around 180, the price-earnings ratio of this Index, based on estimated net earnings of \$19.50 for \$1947, would be 9.2. Disregarding 1932, this ratio is lower than it was in any year for the past two decades. This assumes particular interest in view of record breaking earnings and dividend distributions by industry as a whole. But since during the depressed period of 1933-35, the price-earnings ratio of the Dow Industrials topped 21 and in the first year climbed to 42.3, it also gives food for thought. Apparently a floor develops for share prices in abnormally bad times, irrespective of low earnings, and conversely a ceiling emerges when sales and profits climb to peak heights. Statistically, of course, it is impossible to judge at just what respective levels either low or high prices reach the point where consideration of earnings is minimized, or vice versa. Also, naturally, ratios of individual stocks always vary considerably. For example, while the cross section of industry represented by the Dow group includes concerns considered exceptionally strong and stable, and as said, the present price-earnings ratio is 9.2, that of innumerable other concerns currently is far lower, in isolated cases reaching close to 2. On the other hand, many top grade operating utilities are selling at prices from 11 to 15 times their earnings, and shares of certain industrials are valued at an even higher ratio.

Not much thought is required to realize that never in history, perhaps, has the medium term outlook for the economy been so difficult to appraise with assurance. As the basic determination of share values leans heavily upon how rapidly and substantially earnings can offset the risk involved in an investment, it is undoubtedly true that regardless of current earnings, the future will disclose that many shares are now undervalued and others overvalued. With this in mind we have prepared a table listing selected concerns, whose current earnings seem to be running at a rate ranging from about 1/2 to 1/5 the price of the shares. Due to non-recurrent earnings, including inventory windfalls, the approach of overproduction and a dozen other adverse factors, the net earnings of some concerns may soon decline to a point where the present share prices may look more reasonable. On the other hand, there are other companies whose present prosperity may continue for several years, if not longer; in some instances, a not too serious recession in general business would have only a minor impact. Judged by usual standards, if average earnings over a ten year period equal the price paid for the stock, an investor has small ground for complaint. While it would be unwise to assume that during the next 2 to 5 years, the earnings of any given concern will equal the current price of its shares, even a considerable decline in earning power might not hamper the achievement of an average far above normal. In such instances, ultimate price appreciation would appear to be strongly indicated.

Specific Comments

As far as space permits, we will comment briefly on some of the concerns appearing in our tabulation. Skepticism over the duration of abnormally high earnings by American Woolen Company is holding the price of its shares at a level around 46, only 2.8 times estimated 1947 net of \$16 per share. Distrust of continued high earning power of this concern is based upon its prewar record, indicating that operations were profitable only during periods of high business activity. Additionally, earnings so far in 1947 have begun to feel the squeeze of rising costs. To us it seems that unless the national income goes into a definite tail spin, the demand for woolens and

worsteds will develop large business for an unpredictable period ahead. Sales and net profits could decline substantially, in any event, without endangering the indicated $8 dividend for 1947, and even if the current yield of 17.4% were halved, the present price of 46 would not seem excessive. If our 1947 earnings estimate is correct, the company during the 1945-47 period alone will have earned an amount equal to around $52 per share, after setting up substantial reserves. With $60 million working capital, and an equal amount of backlog orders at mid-year, the company is doing extremely well and unless a radical upset occurs in our economy, its shares at present prices carry well defined speculative appeal.

Management Confidence

One significant factor in appraising share prices today is the confidence evidenced by managements in announcing expansion plans. In the textile field, for example, where forecasters have been proven wrong in their predictions of a serious slump this year, many of the large concerns are planning sizeable additions to their facilities. As conservatism and experience combine to determine such decisions, the odds are that these managements are not swayed by over-optimism. We cite Burlington Mills as one instance. This concern, a leading producer of rayons, apparently refutes prophets of an early depression by allotting $8 million for additions to its plants. As the current price earnings ratio for Burlington is 3, investors generally appear less confident but they may be wrong in their conclusions. True, inventory profits undoubtedly have swelled net earnings of this concern during the current year and profit margins may be narrowing. But if volume continues at a high level, net should amply warrant the indicated dividend of $1.50 per share, with room for improvement. As it is, the yield of 7.5%, with a price of 20 for the shares, looks attractive for a fairly long pull, from the angle of both income and potential appreciation. Similar comments might apply to Pacific Mills and United Merchants and Manufacturers, ranking among the strongest units in the textile field.

Price-earnings ratios of most concerns in the sugar industry currently are exceptionally low. In this division, investors and some managements alike are wary lest world supplies of sugar may soon outstrip demand. In the past this has happened more than once, with disastrous impact upon company earnings. With plantings of sugar beets increasing in war-torn Europe and larger shipments coming in from the Pacific areas, it could easily develop next year that Caribbean and domestic sugar growers will have to cope with a far different market than in recent years, with a decided decline in earnings. The big question is, though, whether pessimism has not unduly depressed shares prices to a point where concerns such as Francisco Sugar and Manati can show price-earnings ratios as low as 2 and 2.1 respectively. In view of the uncertain outlook, and the fact that both of these companies have bonded debts, caution in appraising their shares is warranted, despite excellent current earnings. While chances are that medium term earnings may prove much better than many now allow for, potentials for appreciation in this group are definitely less clear-cut.

(Please turn to page 102)

Selected Stocks Selling at Low Price-Earnings Ratios

	Book Value Per Share (Latest Available)	Net Earnings Per Share 1945	Net Earnings Per Share 1946	Net Earnings Per Share Estimated 1947	Price-Earnings Ratio Based on Earnings for 1946	Price-Earnings Ratio Based on Earnings for Estimated 1947	Indicated 1947 Dividend	Dividend Yield	Recent Price	1947 Price Range
American Woolen	$72.31	$14.81	$21.05	$16.00	2.2	2.8	$8.00	17.4%	$46	50¾-26½
Bliss, E. W.	35.12	def.14	3.40	9.00	9.1	3.4	1.50	4.8	31	31⅝-18½
Burlington Mills	13.49	1.32	3.47	6.70	5.8	3.0	1.50	7.5	20	22½-14
Container Corp. of America	42.51	2.59	7.23	10.00	5.9	4.3	4.00	9.3	43	48 -32¼
Federal-Mogul	28.03	1.08	4.77	4.50	4.0	4.2	1.55	8.2	19	23¼-18¼
Firestone Tire & Rubber	76.02	7.42	13.21	12.00	3.8	4.2	5.00	10.0	50	61 -42¼
Francisco Sugar	36.80	.74	3.99	8.06*	4.0	2.0	2.00	12.5	16	25¾-12¼
Goodrich, B. F.	80.04	7.84	17.69	13.00	3.3	4.4	5.00	8.6	58	71¾-49
International Paper	50.94	2.10	7.98	13.00	6.8	4.1	3.75	7.0	54	55⅛-38¾
Jones & Laughlin Steel	72.91	2.91	3.79	8.90	9.2	3.9	2.00	5.7	35	39 -27⅜
Joy Manufacturing	28.55	1.42	3.29	9.00	11.8	4.3	1.80	4.6	39	39¼-25½
Manati Sugar	15.80	1.19	1.54	5.16*	7.2	2.1	.50	4.5	11	12¼- 6
Mead Corp.	30.60	.99	1.06	6.50	19.8	3.2	1.40	6.8	21	23⅛-16⅛
Moore-McCormack Lines	40.05	2.88	5.10	10.50	6.1	2.9	2.00	6.5	31	31⅝-20⅜
Mullins Mfg. "B"	8.15	.93	1.63	8.00	14.7	3.0	.75	3.1	24	24½-14¾
Nash-Kelvinator	11.62	.58	.59	3.90	28.8	4.4	1.00	5.9	17	19⅝-14
National Supply	22.76	1.79	1.48	5.70	12.8	3.3	Nil	......	19	20¼-12⅝
Pacific Mills	.56.55	2.52	11.99	10.00	3.0	3.6	3.00	8.3	36	39½-25⅝
Pet Milk	40.60	2.71	3.37	7.50	8.9	4.0	1.00	3.3	30	34 -23
Schenley Distillers	36.37	6.44	13.58	10.00	2.2	3.7	2.00	5.4	37	55¾-23½
Superior Steel	20.89	1.24	3.50	4.70	4.8	3.6	1.00	5.9	17	24¼-13
United Merchants & Mfrs.	14.38	1.33	2.30	5.36*	7.0	3.0	1.60	10.0	16	19¼-12½
Virginia-Carolina Chemical	18.00	def.66	.87	4.90*	10.3	1.8	Nil	......	9	9½- 5⅛
Warner Bros. Pictures	18.10	1.34	2.62	3.50	5.3	4.0	1.50	10.7	14	18⅜-13⅝
West Virginia Pulp & Paper	53.93	1.63	4.93	11.00	8.5	3.8	3.00	7.1	42	45 -32½
Wheeling Steel	101.36	3.75	6.25	17.00	7.7	2.8	2.00	4.2	48	48½-31
Worthington Pump & Machinery	71.24	5.85	10.60	18.00	5.7	3.2	2.00(x)	3.3	60	68½-48¼

*—Reported earnings for fiscal year ended June 30, 1947.
(x)—Plus 10% Stock.

★ ★ ★

FOR PROFIT AND INCOME

★ ★ ★

November

Going back over the chart of the Dow-Jones industrial average to 1897, we note that for the month of November there were worthwhile net gains in 20 years, declines ranging from sizable to big in 13 years, little change in 16 years. On an average, it has been a slightly better month than October. However, some of the worst bear-market slides, or rather a portion of them, were seen in some Novembers; for instance, 1930 and 1931. Also some of the wildest intra-month gyrations, without much change at the month-end: for example, 1929 and 1932. In bull-market years, November has, of course, been a good month, but not one of the best in seasonal bias—not as good as the average bull-market June, July, August and December.

The Big Question

The big question is whether the rally which began from the September 26 low, following 12 weeks of reaction, will peter out under, or about at, the July recovery highs, or whether it will plough through the top July resistance level on a big play. For over a year, the maximum range of fluctuation in the Dow-Jones industrial and rail averages has not been greatly widened either way. On purely technical reasoning, the odds are that a break-out from this range on the upside by both averages would be explosive. On the other hand, with respect to 1948 business, foreign developments and the valuation of boom earnings, the general mood is one of conservatism. This would argue against a wide upside swing. Whatever the industrials may do, this column is not hopeful about really dynamic action in the rails.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1947	1946
Addressograph-Multigraph	Year July 31	$5.99	$2.07
Caterpillar Tractor	9 mos. Sept. 30	2.85	2.33
Dow Chemical	August 31 quarter	.79	.66
Industrial Rayon	9 mos. Sept. 30	6.94	4.08
Mathieson Alkali Works	9 mos. Sept. 30	2.36	1.58
New York Air Brake	9 mos. Sept. 30	4.55	2.83
Royal Typewriter	Year July 31	3.49	.30
Shamrock Oil and Gas	9 mos. Aug. 31	1.47	.62
Transue & Williams Steel Forgings	9 mos. Sept. 30	1.65	.50
Underwood	9 mos. Sept. 30	5.25	1.25

Maybe it would be a good idea to get mentally prepared to do some partial profit-taking in the range 183-187, letting subsequent action determine the timing of further sales. We would guess that from that area there would probably be more points in a swing down than in a swing up.

Proprietary Drugs

Some of the proprietary drug stocks, far down from their highs, begin to look cheap on an earnings basis. We like Sterling Drug and Bristol Myers, especially the former. There is nothing basically wrong in this field. Earnings rose abnormally last year, with manufacturers' sales running well ahead of consumption while retailers and wholesalers built up war-starved inventories. The reverse happened in the first half of this year. With the pipe lines filled, inventory buying stopped. In fact, distributors chose to work down stocks somewhat. The situation is pretty well back in balance by now. The essential fact is that consumption is relatively stable and that, in line with national income payments, it is running along at a new peak. Meanwhile, interim earnings of the manufacturers have declined sharply from the extreme 1946 levels in most cases. (Only moderately so for Sterling Drug.) They will be considerably better for the second half year than for the first. Probably there is no hurry needed in buying stocks.

They should stabilize for a time before they are ready to move up, and in most cases their charts do not yet show adequate evidence of stabilization.

Rubbers

On the July-September decline, most of the tire stocks made their lows in August, against September 26 for the industrial average. Their chart pattern for quite a few weeks has looked more bullish than that of the general list. Why that should be so, this column does not know—but such things are not happenstance. Market action probably says that the industry's outlook is better, for a longer period, than the general consensus had allowed for. The best chart action has been in Firestone and Goodrich, but the whole group moves pretty much together. The rubbers are unlikely to get very far against the general market trend. What the chart indications imply is that, given a further market rise, these stocks are likely to be among the outstanding leaders thereof.

Office Equipment

Earnings of most office equipment companies are running at record levels, and sales prospects, both domestic and foreign, appear favorable for some time to come. Underwood Corp. stock showed ability to respond sharply to the good third quarter report recently issued. Net for the year will probably be over $6 a share. The stock, long regarded as one of the best investment-quality issues in the group—next to the very high priced International Business Machines—is selling at well under 10 times that figure. One of the cheapest on earnings, and holding an excellent trade position, is Addressograph-Multigraph. Net for the fiscal year ended July 31 was $5.99 a share. The stock is currently priced about 7 times that figure.

Double Base

Two industries with strong prospects for an extended time to come are automobiles and building. There are a few companies with a large stake in both. Probably the one most closely balanced in that respect is Libbey-Owens-Ford Glass, with around 60% of sales to the auto industry, the rest for construction, inclusive of repair. Motor Wheel and Timken-Detroit Axle have large interests in the oil-burner field, as well as in auto parts. The Briggs line of plumbling-wear has not greatly reduced its dependence on the motor industry. Johns-Manville does considerable business with the auto industry on brake linings, etc., but is mainly in building. If you would like a double stake in the two industries, in one stock, Libbey-Owens-Ford is best suited to the purpose.

Foods

Action of most food stocks has long been poorer than that of the market. The 1947 earnings will be better than had been anticipated when the year started, since volume has remained high and previously feared price declines have not developed. Instead of inventory losses, it looks now like another year of inventory profits. It will also be another year with substantial earnings set aside for reserves against the eventual price slump, making a pretty thick cushion. Depending on the Marshall program, general business trends and the weather, food prices might stay high for many months to come. Yet we doubt that food stocks are subject to more than mild rallies. The price decline hangs over their heads, no matter when it might come; and further price rise meanwhile may only emphasize that fact in investment reasoning.

Rails

Rail stocks have made relatively little hay out of the emergency freight rate boost. A larger, permanent increase is expected to be granted by the ICC, following hearings soon to begin, perhaps effective before the end of the first quarter of 1948. It is very likely that higher wage costs will be offset without anything like last year's time lag, and that earnings will be fairly good for the industry — excellent for the stronger systems — as long as present boom traffic lasts. That is the rub. The break-even point is now so high that any material business recession will knock the daylights out of earnings in short order. Recognition of that fact is the basic thing the matter with the rail market. It tends to restrict the rallies and keep even the best rail stocks selling at highly conservative price-earnings ratios.

Percentage

On an average, to which there will always be some exceptions, there is speculative percentage in favoring stocks which already are performing better than the market. Some candidates: Bliss, Borg-Warner, American Smelting, Dana Corp., Celanese, Joy Manufacturing, Deere, Minneapolis-Moline, International Paper, Hudson, Chrysler, Sharon Steel, Union Bag & Paper.

Building Shares

The mid-summer spurt in building activity should make for excellent second-half earnings of building materials makers. The large construction activity now going on points to gradual stabilization of the building situation. Resistance to high prices appears to have lessened and the easing of rent controls has imparted new vigor to construction initiative.

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1947	1946
Bloomingdale Brothers	26 wks. August 2	$1.14	$3.73
Cerro de Pasco Copper	6 mos. June 30	.37	.59
Dejay Stores	6 mos. July 31	.48	.70
Grand Union	6 mos. Aug. 31	2.97	3.11
Kawneer Co.	9 mos. Sept. 30	.94	1.86
Lane Bryant	August 31 quarter	.23	.60
Monogram Pictures	Year June 28	.49	.52
Republic Pictures	13 wks. July 26	.07	.19
Teck-Hughes Gold Mines, Ltd.	8 mos. Aug. 31	.03	.08
TelAutograph	9 mos. Sept. 30	.56	.61

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Carr-Consolidated Biscuit Company

Please advise the reason for the decline in earnings of Carr-Consolidated Biscuit Company and report on progress of the expansion program of this company.

F. M., Ironwood, Michigan

Carr-Consolidated Biscuit Company was formed on December 31, 1946 by the merger of the J. B. Carr Biscuit Company of Wilkes-Barre, Pa., and the Consolidated Biscuit Company of Chicago. Net sales for the 24 weeks to June 16, 1947 amounted to $10,996,350.00 and net profit to $478,869.00, equal to 66c per common share based on 726,009 shares. On pro-forma basis, combined earnings of J. B. Carr Biscuit Company for 24 weeks to June 16, 1946 and six months to June 30, 1946 for Consolidated Biscuit Company were sales of 11,764,849.00, net profit $1,147,098.00, equal to $1.58 a common share. In explaining the decline in net income, J. B. Carr, president, stated that restoration of products to pre-war quality necessitated the elimination of substitute materials, the enlargement of shortening contents in all products and the increased use of such formerly scarce ingredients as nuts and chocolate. The expansion program increased the company's direct distribution from 12 branch agencies at the beginning of the year to 30 agencies at the present time. Mr. Carr said that this expansion program was affected more rapidly than originally projected, more units having been opened than had been planned for the full year, and the cost of selecting locations as well as organizing and indoctrinating of personnel was substantial. Increased efficiency and economies in operations should result from the merger of the two companies and with non-recurring expenses resulting from the expansion program over, net earnings are expected to improve. Dividend payments in the first half of 1947 amounted to 50c a share.

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Pep Boys — Manny, Moe & Jack

Please advise nature of business of Pep Boys — Manny, Moe & Jack, sales and earnings."

P.J., Bronx, N. Y.

Pep Boys—Manny, Moe & Jack operate a chain of 44 retail stores, selling automobile parts and accesories, hardware, bicycles, radios, etc. These leased stores are located in Pennsylvania, New Jersey, Delaware, Maryland and the District of Columbia.

Total sales for the seven months to July 31, 1947 were $4,162,162, compared with $5,328,843 in the same period of 1946. Last year's sales were unusually large because of the great demand for tire and tubes following termination of rationing January 1, 1946. The company indicated operating revenues for the six months to June 30th this year were $89,927. Net income for the period was $28,297, according to an official of the company, contrasted with $702,754 in the first half of 1946. Last January an initial dividend of 25 cents a share was paid on the common stock which was offered publicly in August, 1946. The stock is listed on the New York Curb Exchange. No further dividend payments on the common are anticipated this year. Principal reasons for sharp drop in net profit are higher costs and non-recurring charge against current earnings of the cost of moving company headquarters.

Capitalization consists of 5000 shares outstanding of 6% non-cumulative preferred and 585,000 shares of common stock. A mortgage of $670,000 is carried on the main new office and warehouse building located in North Philadelphia, Pa.

Balance Sheet as of December 31, 1946 reported total current assets of $3,319,389, total current liabilities of $1,549,349 and net current assets $1,770,040.

Magnavox Company

Kindly furnish information as to earnings, dividends and expansion program of Magnavox Company.

R.F., Saginaw, Mich.

The Magnavox Company earned $1,042,239 in the six months ended August 31, 1947, compared with earnings of $941,975 in the same period of the preceding year. 1947 earnings were despite a two-week inventory shutdown and another two-week production stoppage for summer vacations. Earnings in the 1947 period were equal to $2.08 a share on 500,000 shares of capital stock outstanding, compared with $1.88 on the same number of shares a year before. Sales in the six months of 1947 totaled $13,229,404, compared with $10,372,777 in the same period of the preceding year. Sales for the fiscal year ended February 28, 1947, amounted to $24,013,812 and net income to $2,150,998, equal to $4.30 a common share, based on 416,777 shares outstanding for 1946. Net working capital on April 28, 1947 amounted to $3,094,853.

(Please turn to page 102

Keeping Abreast of Industrial and Company News

An interesting angle to the problem of shipping huge amounts of wheat to Europe is presented by Philip W. Pillsbury, president of Pillsbury Mills. To save badly needed. shipping tonnage, he advocates the shipping of flour rather than wheat for relief abroad.

Milling facilities are poor or entirely lacking in some of the foreign countries. Besides, citing last year's figures, Mr. Pillsbury said that the relative tonnage saved would have been 23.7 million cwt. had flour been shipped instead of wheat. Also, numerous byproducts to feed our own cattle and poultry must be considered.

According to P. W. Litchfield, chairman of Goodyear Tire & Rubber Company, the 50 million shortage of tires at VJ-Day will be completely filled before the end of the current year. Though today's tires are of better quality than in 1939, the consumer buys them at a price 7% lower than 1939 list prices.

The oil industry, also is pointing with pride to current prices of petroleum products. Dr. Cecil Brown, assistant manager of Standard Oil Development Company, points out that, taken as a whole, these items cost about 90% of their prices in 1926. Development of numerous byproducts has aided in lowering the prices.

How heavily the impact of the 60-day shutdown by the Distilling Industry may be felt is disclosed by Seton Porter, president of National Distillers Products Corp. Idle plant expense of this concern probably will be between $900,000 and $1.4 millio n monthly, depending upon policies regarding lay-off of employees. Present intention is to lay off as few workers as possible, because of the irrational burden placed upon them.

In view of current interest in the nation's 60 million employment level, some statistics prepared for the Institute of Life Insurance by the BLS are noteworthy. It seems that employees of both sexes between the ages of 20 to 34 are 2 million below normal, but teen-agers and workers over 55 are far more numerous than ever.

The Securities and Exchange Commission now estimates that total expenditures for new plants and equipment during 1947 may run as high as $15.2 billion, a record showing. During the fourth quarter alone outlays of $4 billion are indicated, not including $100 million for improvements of old facilities.

The healthy condition of the textile industry is shown by a record backlog of more than $30 million reported by Leon Lowenstein, chairman of M. Lowenstein & Sons, Inc. This experienced executive also mentions the significant fact that since 1919, spindles in place have declined 32% while population has gone up 34%.

The tremendous expansion by industry in South Africa during the war gives rise to predictions that this country may be the United States' best automobile market during the next decade. So claims Stanley Anderson, Hudson distributor at Johannesburg.

In our last issue, we mentioned that Commercial Credit Company had borrowed from life insurance companies $25 million for 10 years at 3%. We should have properly added, that these are loans subordinated to all other debts of the company. Otherwise the company's high credit would have commanded a lower rate.

The annual report of E. R. Squibb & Sons for its fiscal year ended June 30, 1947, strikes an optimistic note. Both sales and net income reached new highs, and availability of new facilities promises to swell volume next year. Net for fiscal 1947 equalled $3.26 per share against $3.01 last year.

On the heels of a report by Curtis Publishing Company that net earnings for the half of 1947 were above $2.6 million compared with about $1.8 million for the same period in 1946, comes an announcement that the price of the Saturday Evening Post will be lifted to 15 cents per copy and that advertising rates will be raised. Rising costs are the reason.

The National Association of Real Estate Boards sees increasing evidence that the United States is in the midst of an unprecedented building boom at long last. The Bureau of Labor Statistics fortifies this premise by reporting that 83,000 new dwellings started in August hit a 20 year peak.

Shoe prices seem to have developed a slight downtrend lately, and production in July was 9% under the same month a year ago. Shoe manufacturers in July shipped 34 million pairs at an average price of $3.64 against $3.72 in June.

The most important expansion program in the history of Food Fair Stores, Inc., has been announced. Construction of 22 new supermarkets, to cost about $4 million, will increase the company's chain to 115 outlets in six states. Each market will have about 13,000 square feet of floor space.

Shipping freight by air seems to be more and more popular. In September, United Air Lines flew over a million air freight ton miles for the first time in its history, topping its August figure by 36% and that for September 1946 by 130%. In the last week of September, 341,760 ton miles were flown.

In purchasing a big plant from WAA near North Wales, Pa. recently for $1.75 million, Sharpe & Dohme envisage some radical long range concentration of operations at this location. While several years may be required to complete the move, the company has arranged a credit of $8 million with two insurance companies, to be drawn on as needed, and to meet either building costs or for working capital.

It is estimated that 1947 automobile output in the United States and Canada will top the 4,000,000 unit mark this week.

This would mean that the industry will have to average 108,000 units in each of the remaining nine weeks of 1947 to hit 5,000,000.

The following week should see production up again around the 100,000 level, and it is predicted that it might be the third quarter of 1948 before the sheet steel situation improves.

Development of a machine that will mine and load coal continuously and at low cost will soon get under way, Bituminous Coal Research, Inc., announced.

A $250,000 program to activate the project is more than 80 per cent subscribed. It is being financed by bituminous producers, coal land companies and railroads.

A program for the rehabilitation of the Jim Brown Stores, Inc., formerly the Brown Fence & Wire Company, under the management of R. S. Stevens, former Montgomery Ward executive, was announced to stockholders by Robert A. Weaver, chairman. The plan involves the acquisition of all the stock of E. I. Bakkom & Co., Inc., and the funding of $1,962,000 of bank loans over a seven-year period.

The BUSINESS ANALYST

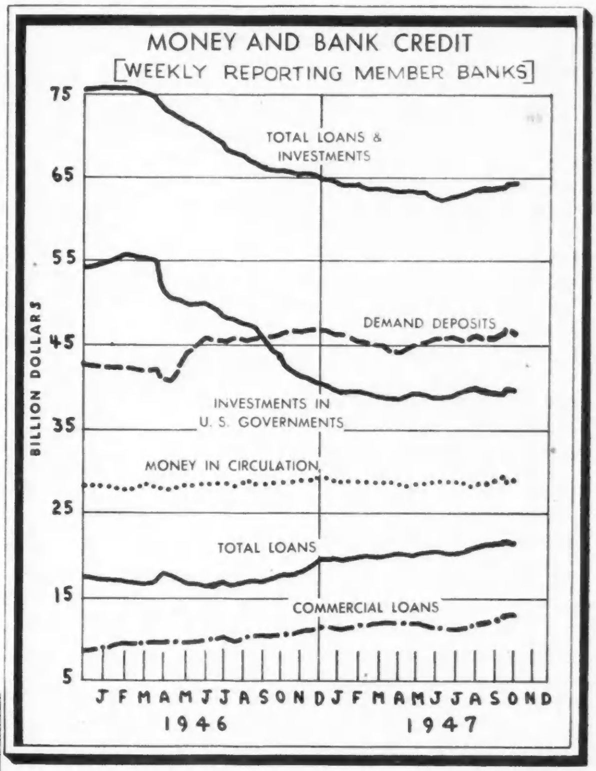
SUMMARY

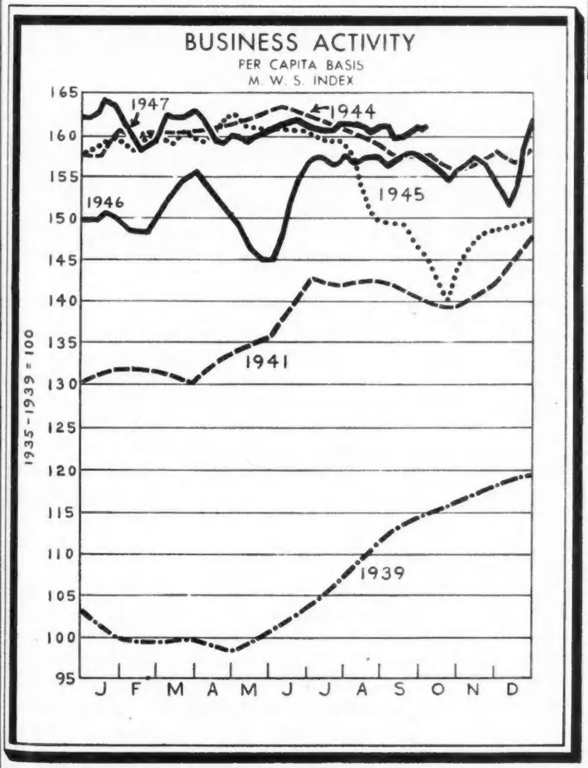
MONEY AND CREDIT—Prices of stocks, corporate bonds and foreign government bonds rally moderately; but stocks sell off on London Exchange on apprehension over revival of the Commintern. U. S. Victory 2½s, unrestricted, fluctuate erratically. New York Bank Stocks sag, despite slow rise in earnings assets and profits.

TRADE—Department store sales pick up again, with margin of increase over last year reaching 21%. August exports only a little under July; but excess of exports over imports widens, owing to a larger drop in imports. Retail grocery store chains reported a net profit of only 1½ cents per dollar of sales for the first half of 1947.

INDUSTRY—Business activity at new all-time high, despite steel and freight car shortages. Construction expenditures during August largest since 1942. Huge export balance and record capital expenditures for new plant and equipment hold promise of continued prosperity for at least some months ahead. Railroads granted emergency freight rate increase. Whiskey makers agree to two-months' production holiday.

COMMODITIES—Commodities resume advance following doubling of margin requirements. M. W. S. index of raw materials spot prices rises sharply to new post-war high.





Despite shortages of steel and freight cars, **Business Activity** during the fortnight ended Oct. 4 expanded to a new all-time high—6% above last year at this time. On a per capita basis (shown in the accompanying chart), however, the gain over last year was only 2.7%, owing to an unusually large growth in population resulting mainly from a high birth rate.

* * *

For the month of September, this Publication's **Business Index** advanced fractionally to 179.1% of the 1935-9 average, compared with 178.9 in August and 171.6 for September of last year. Third quarter average was 179.0—1.2 points above the second quarter, and 4.5% ahead of the third quarter of 1946. Nine months' average was 177.9—7.2% above the like period last year when strikes cut into the production of coal, steel and other industries.

* * *

On a **Per Capita Basis,** our Business Index in September was 160.4% of the 1935-9 average, against 160.7 for August and 157.2 during September, 1946. Nine-months' average was 161.2, compared with 152.5 for the like period last year.

* * *

Department Store Sales in the fortnight ended Oct. 4 averaged 21% above last year, compared with a cumulative gain of only 8% for the year to date. Sales this year have been perking up recently; but the main reason for the

(Please turn to following page)

Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Sept.	1.06	0.96	1.11	1.55
Cumulative from Mid-1940	Sept.	359.4	358.4	343.0	13.8
FEDERAL GROSS DEBT—$b	Oct. 8	259.7	259.3	263.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Oct. 1	47.1	47.3	45.6	26.1
Currency in Circulation	Oct. 8	28.6	28.6	28.6	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Oct. 1	7.06	7.14	7.26	4.26
93 Other Centers—$b	Oct. 1	11.03	11.02	11.93	7.60
PERSONAL INCOMES—$b (cd3)	Aug.	194.4	196.1	180.9	102.0
Salaries & Wages	Aug.	122.1	121.2	112.3	65.6
Interest & Dividends	Aug.	14.2	14.2	13.3	10.0
Farm Marketing Income (ag)	July	2.69	2.19	2.49	1.21
Includ'g Govt. Payments (ag)	July	2.74	2.21	2.62	1.28
CIVILIAN EMPLOYMENT m (cb)	Aug.	59.9	60.1	57.7	51.8
Agricultural Employment (cb)	Aug.	9.5	10.1	9.1	8.8
Employees, Manufacturing (lb)	Aug.	15.5	15.2	14.9	13.8
Employees, Government (lb)	Aug.	5.3	5.3	5.5	4.8
UNEMPLOYMENT—m (cb)	Aug.	2.1	2.5	2.1	3.8
FACTORY EMPLOYMENT (lb4)	Aug.	153	150	148	147
Durable Goods	Aug.	177	175	171	175
Non-Durable Goods	Aug.	135	130	130	123
FACTORY PAYROLLS (lb4)	July	314	320	267	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Aug.	39.8	39.8	40.5	40.3
Hourly Wage (cents)	Aug.	123.8	123.2	111.2	78.1
Weekly Wage ($)	Aug.	49.29	49.03	44.99	31.79
PRICES—Wholesale (lb2)	Oct. 4	157.1	156.2	125.1	92.2
Retail (cdlb)	June	178.8	177.1	147.7	116.2
COST OF LIVING (lb3)	June	157.1	156.0	133.3	110.2
Food	June	190.5	187.6	145.6	113.1
Clothing	June	185.7	185.0	157.2	113.8
Rent	June	109.2	109.2	108.5	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Aug.	8.82	8.57	8.56	4.72
Durable Goods	Aug.	2.05	2.07	1.77	1.14
Non-Durable Goods	Aug.	6.77	6.50	6.79	3.58
Dep't Store Sales (mrb)	Aug.	0.67	0.62	0.72	0.40
Retail Sales Credit, End Mo. (rb2)	Aug.	4.93	4.88	3.54	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	July	231	245	204	181
Durable Goods	July	262	270	229	221
Non-Durable Goods	July	212	229	188	157
Shipments (cd2)—Total	July	270	292	206	184
Durable Goods	July	287	323	216	223
Non-Durable Goods	July	258	271	199	158
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	July	38.5	38.7	30.1	26.7
Manufacturers'	July	22.7	22.6	18.0	15.2
Wholesalers'	July	6.7	6.8	4.7	4.3
Retailers'	July	9.1	9.3	7.4	7.2
Dept. Store Stocks (mrb)	July	1.8	1.9	1.7	1.4

PRESENT POSITION AND OUTLOOK

(Continued from page 97)

large comparative gain is that sales and deliveries last year were curtailed sharply by strikes at New York City and Pittsburgh. At New York City during the week ended Oct. 4, sales were 40% above last year.

* * *

Retail **Grocery Store Chains** reported an average net profit of only 1½ cents per dollar of sales during the first half of the current year. This was 25% larger than the 1936-46 average; yet obviously too small to have any appreciable effect upon living costs. Had they operated without any profit, customers would have saved only a cent and a half on each dollar spent for food.

* * *

During periods like the present, when overall **Profits** are large, it is the small concerns—not big business—that profiteer. This has been proved over and over again; but political propagandists invariably seek to fasten the blame for high prices upon the corporations.

* * *

August **Exports**, at $1,149,500,000, were only $1½ million under July. Commercial exports were actually up $900,000; but U. N. R. R. A. shipments dropped to $2.8 million, from $25.3 million in July; while lend-lease shipments shrank to $100,000, from over $1 million in July. August imports, on the other hand, were $50.9 million smaller than for the previous month; so that net exports expanded a little.

* * *

During the month of August, 83,000 permanent, non-farm dwellings were started, a new post-war high, and 70,300 were completed. For the first eight months, about 500,000 were completed. **Construction** expenditures during August totalled $1.4 billion, the largest for any month since 1942. Construction employment was 14% above August, 1946.

* * *

Government agencies estimate that American business, exclusive of agriculture, will spend a record total of $15.2 billion this year on **New Plant and Equipment.** This would be 25% above 1946, 85% more than in 1941, and 65% ahead of the boom year, 1929. This, and the high probability that huge sums will be spent on foreign relief and rehabilitation for several years to come, preclude the possibility of any severe business depression in the foreseeable future.

* * *

Class I **Railroads** had an estimated net income of $52.3 million for August, against $53.4 million a year ago. Eight-months' total was $294 million, compared with only $65.4 million during the like period last year. It is estimated that the interim, emergency freight rate increase averaging 8.9%,

Production and Transportation

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	Oct. 4	161.4	161.2	157.2	141.8
(M. W. S.)—I—np	Oct. 4	181.5	181.2	171.5	146.5
INDUSTRIAL PROD. (rb)—I—np	Aug.	182	177	178	174
Mining	Aug.	150	134	144	133
Durable Goods, Mfr.	Aug.	211	208	208	141
Non-Durable Goods, Mfr.	Aug.	169	164	164	141
CARLOADINGS—t—Total	Oct. 4	943	938	907	833
Manufactures & Miscellaneous	Oct. 4	429	421	395	379
Mdse. L. C. L.	Oct. 4	122	122	126	156
Grain	Oct. 4	50	52	47	43
ELEC. POWER Output (Kw.H.)m	Oct. 4	4,935	4,956	4,478	3,267
SOFT COAL, Prod. (st) m	Oct. 4	12.2	12.3	12.6	10.8
Cumulative from Jan. 1	Oct. 4	462	450	404	446
Stocks, End Mo.	March	57.7	49.5	58.5	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Oct. 4	5.2	5.2	4.7	4.1
Gasoline Stocks	Oct. 4	82	82	87	86
Fuel Oil Stocks	Oct. 4	58	57	60	94
Heating Oil Stocks	Oct. 4	60	60	63	55
LUMBER, Prod. (bd. ft.) m	Oct. 4	482	516	463	632
Stocks, End Mo. (bd. ft.) b	Aug.	5.6	5.6	4.1	12.6
STEEL INGOT PROD. (st.) m	Sept.	6.78	6.98	6.56	4.96
Cumulative from Jan. 1	Sept.	62.6	55.8	47.4	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Oct. 9	93	167	83	94
Cumulative from Jan. 1	Oct. 9	4,366	4,273	4,281	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Oct. 4	234	181	223	165
Cigarettes, Domestic Sales—b	Aug.	29.0	29.5	29.0	17.1
Hosiery Production (pairs)m	July	125	127	144	150
Footwear Production (pairs)m	July	33.8	34.1	37.0	34.8
Motor Vehicles, Factory Sales—M	July	379	401	298	352
Pneumatic Casings Production—m	July	6.6	7.6	5.4	3.8

PRESENT POSITION AND OUTLOOK

just granted, will add about $650 milion annually to operating revenue before taxes.

* * *

Though business is zooming along at unprecedented speed, there are still plenty of **Headaches for Executives.** The Movie moguls fear that Britain's heavy tax on film earnings may spread to other countries. Argentina, Australia, Brazil, Denmark, France, Mexico and New Zealand are already toying with the idea. It is even feared that the **Earnings Tax** epidemic may spread to other items —such as book copyrights, business calculators, textile and shoe machinery.

* * *

Bread, soap and shortening makers are being forced to raise prices because of mounting costs. Cocoa is selling at ten times the pre-war price and fabricators fear consumer resistance to their costly finished products. **Whiskey** makers, on the other hand, have yielded not too reluctantly to the Government's request for a two-months' production holiday to save wheat. It's something of a gamble to make high-cost liquor for aging and then sell four years hence at no-one-knows what prices.

* * *

Amidst all the shortages, there is a little ray of sunshine in the news that Magma Copper Co. is going to open up a big new deposit of the ore, though volume production will not be achieved until 1952, or later.

ag—Agriculture Dept. b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

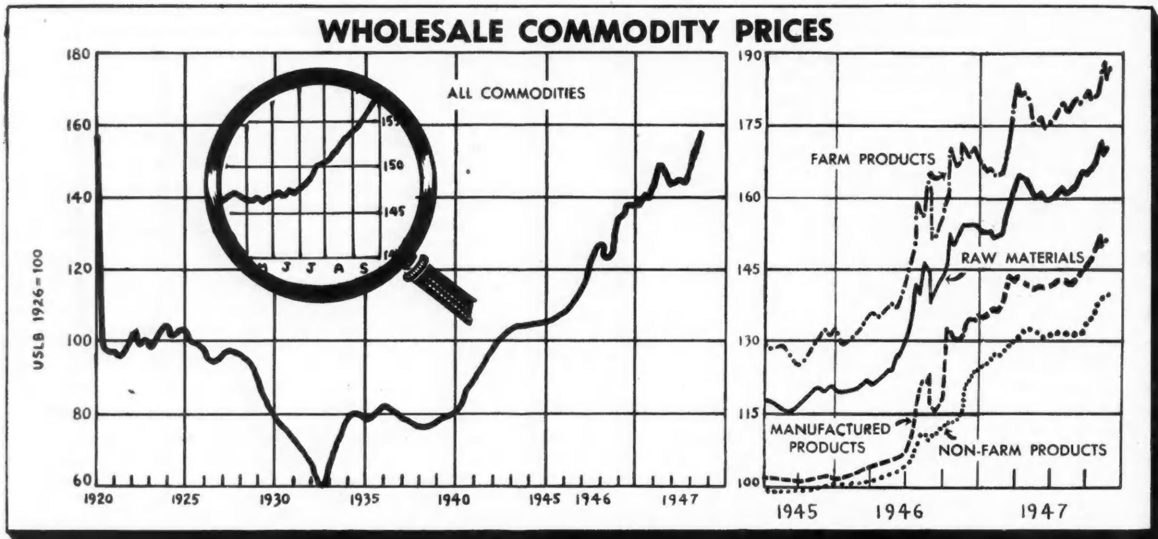
No. of Issues (1925 Close—100)	1947 Indexes High	Low	Oct. 4	Oct. 11
304 COMBINED AVERAGE	148.8	111.5	133.4	134.5
4 Agricultural Implements	204.4	143.4	201.3	204.4A
11 Aircraft (1927 Cl.—100)	167.1	108.2	143.3	152.5
6 Air Lines (1934 Cl.—100)	636.9	467.2	504.8	504.8
6 Amusement	146.0	101.7	104.3	103.3
14 Automobile Accessories	237.4	161.9	203.5	211.1
11 Automobiles	42.8	30.8	38.9	38.9
3 Baking (1926 Cl.—100)	24.1	18.9	19.6	19.4
3 Business Machines	301.6	230.8	262.0	265.3
2 Bus Lines (1926 Cl.—100)	175.0	116.1	132.6	131.8
4 Chemicals	261.6	223.8	247.2	248.0
2 Coal Mining	20.1	14.0	17.6	17.8
4 Communication	58.3	40.6	49.5	50.3
13 Construction	66.5	48.0	63.5	63.9
7 Containers	371.5	291.4	344.7	345.4
8 Copper & Brass	113.9	90.9	103.6	103.4
2 Dairy Products	69.7	55.9	59.2	59.6
5 Department Stores	78.6	55.6	65.4	66.5
5 Drugs & Toilet Articles	223.2	149.4	162.9	170.2
2 Finance Companies	255.8	203.3	243.0	239.5
7 Food Brands	190.4	155.2	175.0	175.2
2 Food Stores	78.9	63.6	71.1	72.6
3 Furniture	94.3	66.1	80.2	81.4
3 Gold Mining	924.7	738.4	835.4	824.7

(Nov. 14, 1936, Cl.—100)	High	Low	Oct. 4	Oct. 11
100 HIGH PRICED STOCKS	89.87	72.58	83.97	84.27
100 LOW PRICED STOCKS	183.14	124.35	161.30	159.73
6 Investment Trusts	62.8	48.3	58.4	59.0
3 Liquor (1927 Cl.—100)	933.6	592.1	830.9	798.6
8 Machinery	159.4	123.1	153.8	155.1
3 Mail Order	129.5	84.2	108.6	108.8
3 Meat Packing	111.2	84.9	105.1	104.9
13 Metals, non-Ferrous	196.7	137.4	154.1	154.3
3 Paper	42.8	31.3	42.1	42.8A
23 Petroleum	215.5	172.2	204.4	205.1
20 Public Utilities	134.4	104.3	117.9	116.6
5 Radio (1927 Cl.—100)	23.2	16.1	19.8	21.3
8 Railroad Equipment	80.6	55.8	64.1	64.5
23 Railroads	27.2	17.0	22.1	21.5
3 Realty	32.9	22.9	25.1	25.9
2 Shipbuilding	116.0	87.4	113.5	116.0
3 Soft Drinks	592.3	462.9	571.5	563.3
13 Steel & Iron	121.1	90.7	112.5	112.9
3 Sugar	68.2	51.4	54.6	54.5
2 Sulphur	253.8	211.0	234.6	237.3
3 Textiles	137.6	93.8	134.1	136.6
3 Tires & Rubber	41.4	28.8	31.9	32.2
6 Tobacco	87.4	65.2	71.1	70.9
2 Variety Stores	342.5	289.1	323.8	322.6
19 Unclassified (1946 Cl.—100)	108.5	83.7	101.3	102.7

A—New HIGH since 1946.

Trend of Commodities

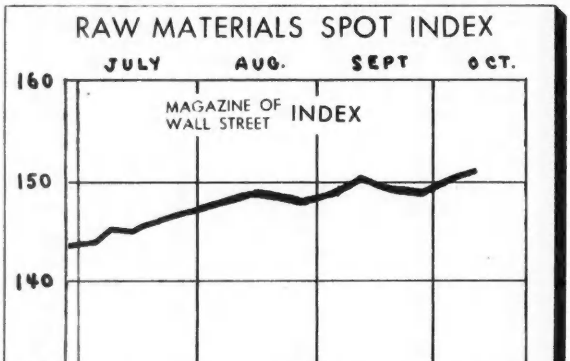
Commodity prices advanced sharply during the fortnight ended Oct. 4, with the M. W. S. index of raw material spot prices climbing to a new post-war high. Rain is still needed in the dust bowl to save next winter's wheat crop. The Agriculture Department's Oct. 1 forecast estimates that this year's corn crop will be 54 million bushels larger than predicted a month earlier; but heavier livestock feeding during the month about offset the benefits of this gain. Farmers are expected to take in $30 billion from marketings this year—20% more than last year and $22 billion more than in pre-war years. Inflationary price advances during the past 12 months have not been confined to farm products, which are up 31%. Building materials have risen 36%, metal products 32%, leather products 32%, and even manufactured products 28%. Doubling of margin requirements has reduced trading in the grain markets without acting as a brake upon prices which, of course, are determined by the relation between supply and demand. Political charges that gambling in the grain markets is largely responsible for rising prices is not supported by the facts. During the past several years of climbing prices cash grain has sold persistently higher than futures. Wheat is now dearer in Canada and Argentina (the two other exporting nations in this hemisphere) than in the U. S.; yet neither Canada nor Argentina at the present time has a futures market. Futures markets actually function as a restraining influence upon prices; since they facilitate hedge selling and disseminate information daily as to prevailing price levels at which anyone, without favoritism, may buy and sell.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equals 100

	Date Oct. 11	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec 6 1941
28 Basic Commodities	335.4	328.3	324.5	305.3	326.8	243.9	156.9
11 Imported Commodities	300.9	294.5	286.9	270.7	290.1	223.0	157.5
17 Domestic Commodities	359.7	352.2	351.4	330.0	353.0	258.5	156.6

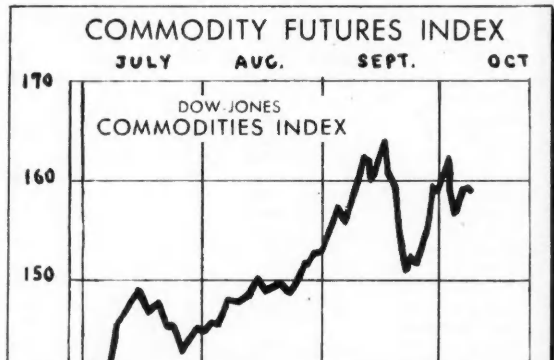
	Date Oct. 11	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec[illegible] 1941
7 Domestic Agriculture	392.4	379.0	392.9	370.5	343.9	297.5	163[illegible]
12 Foodstuffs	422.3	415.3	413.7	370.3	402.5	306.0	169[illegible]
16 Raw Industrials	279.2	273.1	270.1	263.8	280.3	205.6	148[illegible]



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1947	1946	1945	1943	1941	1939	1938	1937
High	150.8	128.8	95.8	92.9	85.7	78.3	65.8	93.8
Low	126.4	95.8	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1947	1946	1945	1943	1941	1939	1938	19[illegible]
High	163.63	127.07	106.41	96.57	84.60	64.67	54.95	82.[illegible]
Low	117.14	104.21	93.90	88.45	55.45	46.59	45.03	52.[illegible]

1948 Outlook For Cement Companies

(Continued from page 87)

Apart from its popularity as a building material, cement has a distinct cost advantage. Not only has its price always been low in relation to competitive materials, but the price rise since the war has been substantially less. Whereas the average price of all building materials early this year was about 74% above 1939, wholesale cement prices during the same period have advanced less than 20%. Thus the cement industry could afford recently to increase selling prices to offset higher wages and production costs, and this move should make for further earnings improvement. By and large, relatively low labor costs due to intense mechanization of the production process has rendered the industry less vulnerable to pressure from higher wages.

Price-Earnings Ratio

Earnings of the cement companies are usually capitalized at a fairly conservative ratio when profits are substantial, as at present. Conversely, poor earnings are likely to be appraised liberally, in anticipation of a cyclical uptrend in operations, and because of the strong finances of most of the companies. The latter also explains why dividends as a rule have been generous, frequently exceeding earnings in poor years; it is a factor that has tended to enhance investor appeal of cement company shares. While they are evaluated on basis of earnings prospects rather than yield, yield nevertheless is frequently high in view of liberal dividend policies.

With earnings prospects highly promising, constructive market action of cement shares is indicated. Most companies registered substantial earnings improvement last year and should do at least equally well, probably better, in 1947 and beyond. On pages 88 and 89, we have summarized the status and prospects of the four leading companies in the field. These thumbnail analyses should be read and weighed jointly with the industry outlook picture and general characteristics described in the foregoing.

Industries Most Vulnerable To Export Decline

(Continued from page 81)

end they are actually conserving them now, pending clarification of the size and scope of our aid program.

Most Urgently Needed

Capital goods most urgently needed include iron and steel products, oil industry, transportation and electrical equipment; also farm and mining machinery. Considering the pressing need for the latter two items, the tendency is to class them as "current" rather than as capital equipment; in other words to place them on a par in importance with food and fuel and have them financed under the Marshall Plan. For all the capital goods industries indicated above, plus probably some others not specifically mentioned, the prospect thus points to sustained heavy activity; for not only indicated foreign needs, but domestic demand as well is large and pressing.

In view of the transcendent need for food, fuel and primary capital goods, it stands to reason that de-emphasis on finished manufactures including many lines of consumers' hard goods must be rather drastic. Many such products previously obtained here in volume will be denied shipment as overall buying will be strictly supervised and controlled not only by the foreign countries but also by our own authorities to assure that Marshall Plan spending will really fulfill its purpose which essentially is the rebuilding of European industries so that Europe may once more stand on her own economic feet. Achievement of this goal of course requires many other actions in the direction of greatest possible self-help on the part of the "Marshall Plan countries." Without doubt, such steps will be rigidly outlined and one of them of course will be greatest possible curtailment of non-essential imports of American goods. The question of what will be available will be largely academic, since the main purpose will be keeping down our expenditures by the channelling of our aid into most essential lines. Unfortunately, the latter for the most part are also those where domestic shortages are most severe. Hence a return of greater shortages, and possible controls, voluntary or compulsory, is definitely in the realm of possibility even if European requests are severely pared.

In the field of non-essential goods including a good many consumers' hard goods, on the other hand, there will be in many instances exist no such demand backlog to make for sustained tight market conditions. Some are already in pretty fair supply and any further reduction in exports may be strongly felt.

An idea of which lines will suffer most is given by the direction which curtailment of imports by Britain and other countries has recently taken, as outlined before. Numerous textile lines are bound to be further affected, especially the higher priced lines as buying nations endeavor to spread their scarce dollars thinner, and finish goods in their own mills. Luxury articles, of course, will be out and this will importantly include radios of which as much as ten percent of domestic production was exported. Export potentials for electric appliances — in contrast with heavy electrical equipment — will undoubtedly narrow, and even general machinery exports may be restricted to types that can be classed as really essential to industrial recovery. Makers of numerous specialties will find their foreign markets shut off.

Emphasis on Essential Goods

In short, both under the proposed Marshall Plan and the conditions of dollar shortage as increasingly experienced by non-Marshall Plan countries, especially in Latin America but elsewhere too, an increasingly strict definition of what constitutes essential goods will be necessary. While it is impossible to anticipate fully the exact impact, a wide range of finished manufactures as indicated in the foregoing is likely to bear the brunt of restrictions. In such lines where demand-supply conditions are balanced or approaching balance, or where over-supply threatens, repercussions will naturally be pronounced.

Pending crystallization of our aid efforts, the extent to which we are willing to go financially to help Europe back on her feet, a good many questions must necessarily remain unanswered. One thing is certain, however: Export trade in the future will

become even more selective and the trends so far discernible give an excellent clue to the direction this will take. Makers of "non-essential" goods may be thrown largely back on purely domestic market potentials. In gauging future prospects, the latter are bound to asume primary importance.

Answers To Inquiries

(*Continued from page* 94)

Magnavox manufactures radio-phonograph combination sets, phonographs, radio loud speakers, condensers and other radio parts and sound slide film equipment. According to the president of this company, orders on hand are expected to keep the various plants busy to full capacity for the balance of the fiscal year.

Cash dividends of 75 cents a share, plus 20% stock dividends have been paid thus far in 1947.

On July 30, 1947, stockholders approved increase of authorized capital stock from 500,000 to 1,000,000 shares. Company is building two additional plants to increase production.

Low Price Earnings Ratios

(*Continued from page* 91)

Some steels, selling at relatively low price-earnings ratios, are also listed in our table. Their conservative market valuation undoubtedly reflects the well-known transitory character of steel booms, the "prince and pauper" characteristics of this industry. Should volumes begin to decline, competition may quickly weaken the price structure enough to bring current high break-even points discouragingly to the fore. While this kind of reasoning is rational, there is a brighter side to the picture, too. With more than a fair prospect that several years may pass before demand for automobiles, heavy machinery, farm equipment, new construction, railroad items and numerous other durables, materially declines, the steel industry in nearly every branch should be able to make a highly satisfactory showing. Should demand and price conditions stabilize, it is of course natural to anticipate that net earnings of many steel producers may dip. But one has only to scan current earnings to realize what a cushion they provide for such an eventuality. On the other hand, dividend distributions are unlikely to become much more liberal because an increasingly large proportion of earnings must be retained to provide for higher depreciation charges, not to mention additions to plant. In other words, dollar earnings may look overly large at first glance, but tend to shrink in terms of their 1939 value. This factor should be borne in mind in studying all price-earnings ratios today. Nonetheless, shares of many steel concerns with current high earning power, such as Wheeling Steel and Superior Steel appear underpriced, considering their over-all prospects and strong finances. Others could be cited.

The lowest price-earnings ratio shown on our list is that of Virginia-Carolina Chemical Corporation, with a ratio of only 1.8. This deserves special comment. Record-breaking farm income, continued Federal support of agricultural prices and the latest program to expand crop output have combined to raise demand for fertilizers to historic peaks. Foreign demand also is of record proportions. Net earnings of this large producer of fertilizers undoubtedly reflect high volume that may continue for a considerable period. Trouble is, though, that prior to its current bonanza, for many years past the company was unable to earn anything at all on its common shares, and arrears of more than $83 per share on the preferred stock preclude any dividends on the common. In this instance, a low price-earnings ratio is naturally indicated.

Paper Group

Of decided interest are the low ratios common in the paper and pulp group. The traditional sensitivity of this industry to variations in business activity has forced investors generally to discount current high earning capacity severely. During the balance of 1947, at least, and probably well through 1948, it looks as if demand for newsprint, pulp, white papers and related items would hold up extremely well, with excellent earnings implications. How confidently some managements are looking forward is shown by plans of International Paper Company to spend $25 million in 1948 for additions to its facilities. West Virginia Pulp and Paper is on the way towards completion of a $15 million modernization program. Numerous other concerns, too, have announced intention to spend large sums to enlarge output of paper products. Current high common share earnings of International Paper are due not only to large sales and firm prices but also to large-scale retirement of debt, long term refinancing at low rates and better coordination of operations. These constructive developments should substantially aid in stabilizing future profit margins. All considered, the price-earnings ratio of 4.1 appears to us to reflect unwarranted apprehension as to the company's earnings potentials for some time to come. The wide margin of earnings over dividends could be shaved without endangering the current dividend rate, but is not likely to experience much of a change, in our opinion. At a price of 54, these shares provide good income combined with opportunities for eventual price appreciation.

Machinery Concerns

Among manufacturers of machinery, E. W. Bliss and Worthington Pump seem to be running closely abreast with price-earnings ratios of 3.4 and 3.2. In the *Magazine of Wall Street* of October 11, 1947, we analyzed the status and prospects of Bliss at considerable length, and as many of our comments on the industry apply equally to Worthington, we suggest that our readers review this article. Our optimistic slant on the producers of machinery is borne out by late reports from the Machine Tool Association that the industry now seems likely to start 1948 with backlog oders totalling $250 million. This points to well sustained high earnings, possibly increased dividends of these two concerns and present price-earnings ratios appear lower than potentials would suggest.

Before concluding our discussion, the reader's attention should be directed to two specialists in the durables field. One of these is Mullins Manufacturing Corporation, the price of whose shares has not risen in proportion to sharp earnings gains in the current year. Mullins makes kitchen equipment of nearly every kind, its products going into hotels and homes. Steady demand for replacements plus equipment for new homes gives this concern medium term outlook a ver

bright tinge. Outlays for kitchen equipment rank high in every budget where items of this kind are needed. Company also makes doors and fenders for automobiles. Prior to 1944, Mullins for a number of years accumulated working capital by retaining a good part of earnings, but now is amply supplied. The sharp uptrend in net this year may not continue, but for a considerable time ahead, profits should far exceed prewar experience. Hence a price-earnings ratio of 3 seems undeservedly low.

Joy Manufacturing Company specializes in mining machinery, among others, for a prolonged period likely to remain in high demand. To offset peak wage costs, mining companies are forced to modernize their equipment. High earnings are indicated for an extended period. The spread between present record earnings and the current dividend provides such a sizeable cushion that more liberal dividends appear warranted. In view of the overall outlook for the company, a price-earnings ratio of 4.3 invites attention.

How To Minimize Your Taxes

(*Continued from page 71*)

established capital losses, the cost of the repurchased security is thus written up, so that the future years' gain therefrom is considerably reduced and hence the tax.

In conclusion a word of warning. Do not permit tax considerations to override sound business judgment. The investment position of a security to be sold as well as the outlook for the security to be purchased, in security switch operations, should be carefully weighed, lest the tax advantages be outweighed by investment disadvantages.

Need For World Currency Reform

(*Continued from page 79*)

budget deficit financing. The huge postwar deficits have done more damage in bringing about the spiralling of prices and costs than did the wartime financing. Table I presents a comparison of the expansion of deposits and note liability on the one hand, and of production on the other, for a number of leading countries.

The second important step in restoring confidence in currency must be the adjustment of its external purchasing power to internal purchasing power. Stripped of technical phraseology, this means that currencies will have to be revalued to a realistic level. This level is sometimes — not always — indicated by their black market quotations.

Overvaluation Widespread

A good many currencies, at least those of Europe, are overvalued compared with the purchasing power of the dollar. When the war ended, there was something to be said for the compulsory maintenance of fictitious currency values though overvaluation discouraged exports and encouraged imports. It was deflationary insofar as it tended to increase the pool of goods at home. But with the exhaustion of gold and dollar reserves, no country can afford to maintain its currency at a fictitious level. No matter how perfect exchange controls may be, there is always a leakage of funds into the countries with sounder currencies. Besides it is in the interest of all countries that a gap in international payments of a country with overvalued currency be reduced. Currency devaluation discourages imports and the transfer of capital abroad, and encourages exports and the "dishoarding" of gold and dollars.

To sum up; confidence in money can be restored (1) by maintaining resonable equilibrium between the money supply and the supply of goods, and (2) by putting an end to the maintenance of currencies at a fictitious value.

The inter-war period is rich in examples of successful stabilization of currencies and the subsequent rapid return of confidence and prosperity. A classic example is the stabilization of the French franc by Poincare in 1926. The situation in France at that time was not much different from what it is at present. Because of political pressure groups, one weak Government after another failed to take action on currency depreciation and halting inflation. In 1925, following the collapse of the German mark, the pace of franc depreciation quickened. Flight from the franc assumed huge proportions. Then came Poincare and his National Government with the drastic measures of sharp devaluation and budget balancing at all costs.

Within a few months, the attitude towards the franc changed completely. Funds came out of domestic hoards. French and foreign capital returned from abroad. The fact that the franc was somewhat undervalued encouraged exports and tourist traffic. By 1928 prosperity had returned to France.

A more recent example of the restoration of confidence in national currency is provided by Belgium. By blocking the bulk of currency and deposits, Belgium attempted to adjust the volume of purchasing power to the volume of available goods. This was done in October 1946. Last year the budget was balanced. These measures obviated the necessity of imposition of cumbersome controls over business. There was no purchasing power to feed black markets, yet on the other hand, individual initiative has been allowed more play than in other Continental countries. Today the Belgian franc is often included among the "hard" currencies. Belgian and foreign capital are returning and in recent months gold and dollar resources have actually been increasing.

The French Problem

Among the Western European currencies the revaluation of which is unavoidable are the French franc and the Italian lira. The trouble in France began when the Government, in order not to alienate the farmers, decided to refrain from blocking off the excess purchasing power created during the war. Then followed a succession of huge budgetary deficits—the French public debt has nearly doubled since the end of the war. Spiraling wages pumped still more purchasing power into the French economy, far more than could be absorbed by increasing production. Huge imports proved of no avail in stemming the advance of prices which are now nearly eleven times the 1938 level.

At the official rate of 119 francs to the dollar, the French currency appears to be grossly overvalued. Yet the French Government keeps on pegging it at that level, even though in the free market the dollar brings about 300 francs. French products are too high-

one-fourth of what they were at the end of the war, would probably be exhausted by this time.

The situation in Italy is much the same. In face of a supply of goods even smaller than in France, the failure to block off excess purchasing power created during the war and by huge post-war deficits has led to a price advance to a level about 53 times pre-war. At the official rate of 350 lira to the dollar, the lira is grossly overvalued. The official rate was lowered twice in recent months and it seems that the Italian Government is aware of the necessity of bringing the lira down to the free market level of about 700 lire to the dollar. In fact, the lira has been so unstable that the Monetary Fund waived the setting of a par value.

What is the right level for the French and the Italian lira? That is difficult to say. On the basis of price comparisons (purchasing power parity computations which leave much to be desired), the French franc should be around 225 francs to the dollar, and the lira about 550 lire to the dollar. But we make these computations with our fingers crossed and offer them merely as our own ideas of what a reasonable valuation might be.

The Paris Conference

The 16 countries participating last month in the Paris Conference on the Marshall Plan recognized the necessity of monetary stability, and "carrying out internal measures within their power in fiscal and currency matters"—independently of external aid. This is what the Paris Report said about the intentions of the French and Italian Governments: "The French Government made clear to the committee of cooperation its determination to meet from current revenue all budget expenditures including military and reconstruction expenditures in 1948, with the sole exception of expenditures in respect of indemnities for war losses to private property and of industrial investments. Furthermore, the year 1948 will see the end of all new borrowing from the Bank of France. A comprehensive plan for economic and monetary etabilization is being worked out and will be submitted to the next session of Parliament."

"The Italian Government declares that special steps are now being taken with regard to finance and credit and that other such measures likewise intended to put internal finances on sound footing will be introduced very shortly. Thus the Italian Government has decided that *it will approve no new expenditure unless provision is made for revenue to a corresponding amount.* Furthermore, a recent enactment forbids the Treasury to accept any new loans from the Central Bank, unless Parliament has specially authorized it beforehand to do so."

Good Intentions

The intentions are good, but whether they will be carried out under political pressure at home is another matter. Actually in France the chances of budget balancing are slim. The extra-ordinary budget, half as large as the budget, must be all covored by borrowing from the Bank of France. Already one of the recommendations of the Paris Conference has gone overboard—the establishment of a dollar pool to insure greater convertibility of European currencies. It was a neat idea. By cancelling the debits and the credits in each country's payments, it was hoped that the net amount of dollars needed could be reduced. However, the British backed out.

Currency reforms are badly needed in other European countries, although nowhere, with the exception of some Eastern and Southeastern European countries such as Poland, Roumania, Yugoslavia, Bulgaria and Greece, is the need as urgent as in France and Italy. Of the liberated countries, Denmark, Norway, Belgium, the Netherlands, and Czechoslovakia have more or less succeeded in balancing their budgets and in re-establishing confidence in their national currencies. The resources that are hidden away are probably small. But the currencies of all these countries are overvalued, least in Belgium, most in the case of Czechoslovakia; their trade is consequently distorted and devaluation would help their exports and keep down their imports.

Although most Britishers abhor even the idea of pound sterling devaluation, there are many serious observers who maintain that devaluation to, let us say, $3 in terms of the U. S. dollar, would help reduce the gap in the British balance of payments by encouraging exports. The lowering of the pound would ease the problem of control, and of course lighten the burden of the old blocked pound sterling balances. In the New York free market, the pound is quoted at around $2.75.

If Germany is to contribute to European recovery, something will have to be done about the reichsmark at least in the U. S. and British zones. The official rate of 10 reichsmarks to the dollar is completely out of touch with the free market rate of about 200 to 220 reichsmarks to the dollar. Extensive external help in the form of goods will be needed if German currency reform is to be successful.

Outside of Europe, the currency problems in China, Japan, French Indo-China, and Indonesia resemble the problems faced by France and Italy. Fiscal reforms, the elimination of budget deficits, and drastic devaluation will be necessary if their national currencies are to be stabilized and their national resources fully mobilized for reconstruction. Elsewhere, in Latin America, in the Near East, in India and even in Canada, the problem is that of currency change, of devaluation, so as to reduce the drain on gold and dollars by encouraging exports and discouraging imports.

Latin America and Near East

The internal purchasing power of most Latin American and Near Eastern currencies is far below the external purchasing power (based on the official rates). In some countries, merely a small dose of deflation is necessary to bring external and internal purchasing power into a line. This is especially true about Uruguay, Venezuela, Colombia, and Cuba. Elsewhere in Latin America, in Chile, Peru, Ecuador, Brazil, and even in Mexico and Argentina, more severe deflation and devaluation will be necessary to bring price levels down to the world level. The same is true about Egypt, Iran, and Iraq. However, none of the Latin American or Near Eastern countries is likely to deflate and devalue until prices of their principal exports begin to decline. With the Marshall Plan providing dollars for purchases of such products as coffee from Brazil, wheat and meat from Argentina, and cotton from Egypt and India, action may be delayed for some time.

The Canadian currency problem is in a class by itself. Basically there is nothing wrong with the Canadian dollar; it is a strong currency and its internal purchasing power is even greater than the internal purchasing power of the U.S. Dollar. But the Canadian balance of international payments is in bad shape by virtue of Canada's buying largely in the U.S. and selling in convertible currency areas. Devaluation would discourage imports from this country and encourage travel and gold production which are the sources of U.S. dollars. But a loan from this country and adoption of the Marshall Plan may make Canadian devaluation unnecessary.

Money On A Spree

(Continued from page 77)

Indicative of increased rural sales is the fact that mail order sales have been running over 20% above last year, and total rural sales are some 18% higher at a time when department stores sales have barely held their own.

Marked consumer preference for long-missed durable goods is reflected in the estimate that during the first half of this year, over 12% of total consumer spending was for durable compared with 9% a year ago, and 12% in a good prewar year. Thus dollar sales for motor vehicles are up 75% from last year, building materials 30%, household appliances 50%. On the other hand, expenditures for services which include rent as a major item, declined to about 28% of total consumer expenditures compared with 38% before the war. The present relatively low proportion of outlays for services, caused by insufficient housing and rent control, is an important factor making for more liberal spending in other directions.

It is gratifying to note that up to the very present, the flow of income has been maintained at a high level with noteworthy stability both in the aggregate and in major components. Well maintained wages and salaries doubtless reflect the stabilization of production in most major fields, and this stabilization, together with the promise of continuance, has been an important factor influencing the public's spending attitude. Thus the spending trends noted during the first half of this year have been intensified during the third quarter, with consumers stepping up purchases of both durable and non-durable goods sharply to register a total sales volume which more than offset the recent drop in export business. It is this shift towards increased spending that is the largest single factor responsible for lifting our national output during the third quarter to a new all-time high, to an annual rate of $230 billion. This compares with $226 billion for the second quarter, $222 for the first quarter, and $203.7 billion in 1946, and the wartime peak of $221.8 billion registered in the first quarter of 1945. These figures of course are not adjusted for price rises, otherwise a different picture would be presented. Still the persistent increase shows that our spending spree continues unabated.

Since much of the third quarter increase took place in the month of September, a new record is indicated for the final quarter of 1947. The trend proves, conclusively, that while the postwar boom is flattening out, it still hasn't ended. National income rose at a $10 billion annual rate during each of the last two quarters of 1946. During the first three quarters of 1947 it has been rising at an annual rate of only $4 billion quarterly. The important fact is that it continued its uptrend though the two most powerful postwar expansionary forces — inventory accumulation and exports — have lost much of their impetus. As it is, exports during the third quarter will prove the only segment of national output to slide off during that period. Business buying for inventory which soared throughout 1946, declined during the first half of 1947 and increased again in the third quarter, rose sharply last August and a further gain is indicated for September. Business spending, in short, is continuing at a good clip. Combined outlays of business and consumers for new construction rose during the third quarter and businessmen appear to have spent as much on capital goods in the third quarter as they did in the second quarter.

To sum up: Despite the inroads on incomes and savings of high living costs, overall domestic spending continues to show signs of great vitality, and continued upward pressure on prices would seem to account at least in part for this showing. The boom continues in full force, stimulated by revival of confidence that no early let-down is in sight, by realization of the fact that high prices will continue. This picture could change, of course, should food prices get further out of hand, or should incomes begin to lag markedly behind rising prices. If this occurs, not only would it force perhaps drastic changes in the consumer spending pattern, but overall consumer spending inevitably would be affected. The spending spree, now still going strong, would then show the first signs of abating. So far it doesn't.

Investment Audit Of Cities Service

(Continued from page 84)

Altogether, properties outside the electric utilities are estimated to have a conservative value of about $330 million and an equity value, after taking care of indebtedness, of more than $210 million. This appraisal is regarded as low under current conditions in view of the fact that at $1 a barrel, indicated oil reserves would be worth some $350 million. This gives no consideration to the substantial gas reserves which are becoming increasingly valuable.

Under the plan recently approved for simplifying capital, the public utility properties were given the value of $85 million. Provision was made for using proceeds of sale of these properties for retirement of about $60 million of debenture 5s due from 1958-1969. Any excess of funds remaining after such debt retirement was to be applied to retirement of new debenture 3s of 1977, according to terms of the agreement. The management has indicated its belief that at least $25 million would be available for purchasing the new debentures.

Cities Service has numerous small investments as well as New York real estate estimated to have an equity of $10 million or more after provision for mortgages approximating $10.4 million.

The tangible assets behind outstanding debentures after elimination of utility properties are estimated to have a value of close to $300 million which would represent wide coverage over the $90 million of debentures that would

be outstanding after retirement of approximately $25 million. A sinking fund provides for retirement of $1.5 million annually or $45 million principal amount of the issue by maturity. After disposal of the utility properties and application of proceeds to retirement of indebtedness under terms of the plan, the remaining $90 million of debenture 3s would constitute the only parent company obligations senior to the common stock. Under such conditions, the obligations should warrant greater investor appreciation.

Earnings Estimate Conservative

So far as the common shares are concerned, it is interesting to observe that estimates of net income for the next two years have been held at a conservative level. Th figures compiled for the pro-forma statement call for net income this year of approximately $24.5 million equivalent to $6.60 a share on the common. For next year the estimate places net income at $25.9 million or $6.98 a share, and for 1949 income of $27.6 million is expected or $7.44 a share. The detailed figures indicate that management anticipates no improvement in income in gas production or in pipe line and distribution activities. Thus no provision has been made for possible growth in use of natural gas or in any addition to revenues from this division. Moreover, the estimates failed to take into account benefits of an advance in crude oil prices of 25 cents a share which has taken place since compilation of the figures. Under the circumstances, it appears justified to raise earnings estimates for this year to perhaps $7.50 or $8 a share and if conditions continue favorable, even higher earnings seem a reasonable expectation for next year.

While delay in completing the integration program postpones the company's release from SEC control, financial results are not being adversely affected. The two large Ohio utilities contributed in dividends last year almost $5.5 million, and an equivalent amount would be a reasonable expectation for 1947. Savings in taxes, interest, etc., arising from disposal of the electric properties apparently would approximate only $3.8 million, so that an advantage of about $1.7 million annually accrues to the parent company while these utilities are being retained. Moreover, it seems quite possible that any sale of the properties might be on a basis affording a yield of 6% or more to the purchasers on current dividends, while Cities Service would be compelled to apply proceeds to redemption of 3% debentures.

Promising Future of Gas Business

In view of the growing importance of gas as a fuel for residential heating, now that coal prices have advanced so sharply and fuel oil seems likely to rise correspondingly, the position of Cities Service takes on added importance. The two principal units active in gas operations are Cities Service Gas Company and Gas Service Company, the one engaged in operating a pipe line and in wholesaling the product, and the other serving as a distributing organization. Gross revenues from these units would approximate 15 percent of the system's receipts (asuming retention of the electric properties), while on basis of recent experience they could be counted upon to contribute upward of 22 percent of earnings. It seems logical, therefore, to think that management may give considerable attention to exploiting these properties and to expanding sales with the thought of improving earning power.

Moreover, the promising future for the gas business may spur action on a plan to consolidate Arkansas Natural Gas properties with the parent. Cities Service has failed thus far to realize the full potentialities of its large stake in the Arkansas concern. The latter has felt the effect of prosperous conditions in the oil industry and appears well situated to supply increased amounts of fuel. Hence, if the parent were able to effect a merger, there seems little doubt but that income could be generated well in excess of the $524,000 annual dividends currently being received on holding of Arkansas preferred stock. Discussions with government agencies have indicated that probably no official objection would be raised to such a program, if a small unit classified as a public utility were segregated. Removal of this concern from the picture would meet objections of the SEC.

Because Cities Service has long been regarded by the public as a utility, it may be some time before the shares can be adjusted marketwise to appraisal as oil securities. The general public probably has not appreciated the fact that withdrawal from the utility field has been so nearly accomplished. A study of the company's position in the light of changed conditions justifies the view that earnings in the future are more likely to increase than to decline and that, under the circumstances, market quotations for the common stock have been relatively modest as compared with major integrated oil concerns.

With completion of recapitalization and sales of its remaining utility interests, there will emerge a new Cities Service Company, changed in many respects from the company we have known in the past. The new concern will be a sounder company whose future, both in point of strength and stability, will bear little resemblance to its past. Eventually, this is bound to find fuller market reflection. While the price of the common has advanced in recent months, the equity at current market of about 37 appears still moderately valued in relation to future potentials.

Common Stock Investments For Diversification And Stabiilty

(*Continued from page* 86)

half of its net income from dividends received from investments in other companies, including mining enterprises in numerous parts of the globe. Reference to the table wil show that among these diversified interests held are more than 5.3 million shares of Rhodesian Selection Trust and some 1.6 million shares of Roan Antelope. The Rhodesian concern owns an immense acreage of copper properties in South Africa and is rated as one of the lowest cost producers in the world. Current high prices for copper have made the venture extremely profitable, as analysts of American Metal Co. shares well know. Roan Antelope, on the other hand owns some valuable properties but due to arrears on its preferred pays nothing on its common shares. While the basic operations of American Metal are profitable it will be seen that the proportionate value of the two investments cited accounts for 62% o

the current price of 29 for American Metal Co. common. An adjustment along the lines we have been discussing would reduce the price to 11 as a basis for its own operations plus income from its numerous other investments. These circumstances are something to consider in weighing the merits of the company's shares.

Canadian Pacific

Ownership of more than 1.68 million shares of Consolidated Mining and Smelting Co. by Canadian Pacific Railway furnishes an extremely interesting example of diversification into unrelated fields of activity. On a per share basis, this investment amounts to 0.126 share of Consolidated for each share of Canadian Pacific, but in terms of relative dollar value, the total investment represents 75% of the market value of the parent. In other words, by deducting their value from a recent price of 12 for Canadian Pacific shares, the remaining assets of the railroad would be valued at only $3 per share. As Consolidated Mining dividends thus far in 1947 have swelled Canadian Pacific's revenues to the tune of more than $8 million, the investment has been highly satisfactory. On the face of it, it would certainly appear that the current price of Canadian Pacific shares severely discounts the fundamental value of the company's operating properties and other outside investments. We do not say this is the case, for many other factors enter the equation. But that's certainly the way it looks.

Potential purchasers of E. I. duPont stock at its current price around 190 may be chiefly motivated by the remarkable status of this concern as a producer of chemicals. Not to be overlooked, though, is the fact that duPont holds in its treasury 10 million shares of General Motors Corporation, now priced close to 60. Relative to the outstanding shares of duPont, this indicates that for every share acquired, the buyer also obtains an indirect interest in 0.9 share of General Motors, the value of which equals 28% of the market value of a duPont share. Allowing for this, 137 would be the adjusted price of the chemical shares. With GM dividends running at a quarterly rate of 75 cents per share, total dividends received by duPont from source at present to equal about 15% of the company's operating income, or less than the relative proportions of their stock prices. This provides an interesting problem for the investor in appraising the relative favorable features of both equities; for earnings gains by the two concerns, if they develop, could make for a marked deviation from this current relationship. The question then would be: Which stock is relatively most attractive?

Eastern States Corporation is a holding concern, owning 1,000,000 shares of St. Regis Paper Co. stock, out of slightly more than 5 million shares outstanding. The company's other investments are nominal. A buyer of the parent company share acquires in effect 1.75 shares of St. Regis. As the market price of the latter is 11, the equivalent price of Eastern States stock on a strictly mathematical basis should be 19.25, as compared with the current quotation around 4. In explanation of this discrepancy, it should be mentioned that St. Regis has paid no dividends since 1931, so that mountainous arrears have piled up on the holding company's preferred stock issues. Thus on the company books, the Eastern States common shares have a deficit net asset value of approximately $18.50, in part due to a sizeable undervaluation of its St. Regis holdings. At best, only a highly speculative value can be accorded to the Eastern States equities. Though St. Regis Paper is an important manufacturer of paper products, its earnings prior to 1940 were disappointing and no dividends were paid for 16 years past on the common. But net earnings have trended steadily up in recent years and for the first half of 1947 equaled $1.40 per share. By retaining earnings to boost working capital, by improvements of facilities and by expansion, the outlook for the company has changed radically for the better. Additionally St. Regis last year refinanced its preferred at a lower rate. The reader must judge whether the brighter prospects add appeal to St. Regis shares at 11, or whether Eastern States at 4 are more attractive speculatively. Our own opinion favors the former.

Investment holdings by numerous railroads create interest in weighing the price of their shares under current difficult conditions.

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912, AS AMENDED BY THE ACTS OF MARCH 3, 1933, AND JULY 2, 1946

Of THE MAGAZINE OF WALL STREET published bi-weekly at New York, N. Y., for October 1, 1947.

State of New York } ss.
County of New York }

Before me, a Notary Public in and for the State and county aforesaid, personally appeared C. G. Wyckoff, who, having been duly sworn according to law, deposes and says that he is the Publisher of THE MAGAZINE OF WALL STREET and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily, weekly, semiweekly or triweekly newspaper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the act of August 24, 1912, as amended by the acts of March 3, 1933, and July 2, 1946 (section 537, Postal Laws and Regulations), printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are:

Publisher—C. G. Wyckoff, 90 Broad Street, New York 4, N. Y.

Editor—C. G. Wyckoff, 90 Broad Street, New York 4, N. Y.

Managing editor—E. A. Krauss, 90 Broad Street, New York 4, N. Y.

Business manager—None.

2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one percent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address as well as those of each individual member, must be given.)

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4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the twelve months preceding the date shown above is...... (This information is required from daily, weekly, semiweekly, and triweekly newspapers only.)

(signed) C. G. WYCKOFF,
Publisher.

Sworn to and subscribed before me this 1st day of October, 1947.

(signed) RAOUL SCHWARTZ,
Notary Public
N. Y. County Clerk's No. 171

[Seal]
(My commission expires March 30, 1948.)

Some of our readers may not realize that the value of Pennsylvania Railroad's holdings of Norfolk and Western stock, for example, equals 61% of the current price of the Pennsylvania's shares. Since Pennsy owns more than 2.39 million shares of this other railroad, that paid dividends totalling $13 per share last year, the support to the parent's revenues was very substantial. Considering the discouraging experience of Pennsylvania in trying to make both ends meet during the past year, a recent price of 18 for its shares may not be surprising. On the other hand, it might seem significant that a purchase of this stock brings an "around-the-corner" acquisition of 0.182 shares of Norfolk and Western, worth $60 per share. Due allowances for this would lower the price for Pennsylvania stock to 7. If this sound old railroad pulls out of the hole and its own normal operating profits should be restored, the theoretically low price for its shares might provide a firm base for eventual appreciation.

We hope that our explanations have covered sufficient ground so that our readers can understand the rather complicated pattern needed to analyze inter-company holdings such as we have discussed. Quite evidently there are both opportunities and pitfalls that only detailed study can disclose. In scanning the tabulation, it should be kept in mind that the importance of indirect investment holdings is much greater in the case of companies which have no senior capitalization. Capital leverage, where it exists, can importantly modify any conclusions that might be fully valid in cases where capitalization is restricted to common stock.

The Problem Of Over-Expanding Postwar Credit

(*Continued from page 66*)

may provide the basis for expansion in credit amounting to six to ten times the reserves made available. Thus present bank holdings of Government securities, theoretically at least, could form the basis for a credit expansion in the huge amount of over $500 billion!

A New Element

Nothing so extreme, of course, will happen, but this ability of the banking system to bring about the creation of large new reserves without borrowing is a new element in the credit situation, the direct result of our policy of financing the war largely through the sale of Government securities to banks. With an active demand for loans, it can become a powerful inflationary force, and to prevent this is the purpose of warnings that have been sounded. Another potential for credit expansion has been the large influx of gold that already amounted to nearly $2 billion this year, and a good deal more appears headed for our shores as foreign nations are forced to use part of their gold hoardings in order to acquire badly needed dollar exchange.

As it is, conditions appear favorable for further substantial expansion of bank credit and under present circumstances it does not appear possible for the Federal Reserve System to check this expansion by selling Government securities and thus absorbing bank reserves. For reasons explained before, it can hardly refuse to buy Government securities. Higher interest rates, beyond the recent firming of short term rates, might be tried to discourage borrowing but such a step, too, holds risks. Not only would it raise the cost of Government financing, adding to our already high debt burden, but it might depress the value of outstanding Government bonds, perhaps even lead to wholesale disposal of such bonds, including savings bonds, held by individuals.

New controls to meet the situation have been suggested in the past but so far Congress has shown no inclination to act. This might have meant higher reserve requirements for banks or the requirement for banks to establish a so-called "secondary reserve" by freezing a certain amount of holdings of short term Government securities. Since nothing has come out of these suggestions, persuasion would seem to be the only means of trying to avert possible over-expansion of bank credit.

At present, bank lending is again rising after a temporary slowing earlier this year, partly due to seasonal influences but partly also reflecting greater confidence in the business outlook and resumption of inventory accumulation in anticipation of still higher prices. Also, commercial loans may be increasing because operating costs generally continue to tend higher. This trend forecasts new peaks in outstanding bank credit, still in view of the high level of overall business, there is hardly any immediate danger of the situation getting out of hand. The warnings sounded so far are primarily a call to join the battle against inflation. The banking position continues extremely sound and only a sizeable recession in business could presumably bring to light any weak spots. Such a recession, for over a year believed "just around the corner," today appears farther off than ever.

The Outlook

The prospect appears slim for any drastic tightening on sound business loans. Any such move would hardly serve to check inflation; rather it might well have the opposite effect. Commercial loans by insured commercial banks, as shown in our table, increased 43% from mid-1946 to mid-1947 and aggregate close to $15 billion, an increase of $4.4 billion within a year. The latest trend is strongly upward, reflecting factors referred to above.

Agricultural loans have advanced relatively moderately, only 13.4% within a year. Despite a slightly rising trend, farmers obviously are sufficiently well heeled financially so that no over-expansion is indicated in this field.

Real Estate loans, on the other hand, have virtually doubled since the end of the war, and between mid-1946 and mid-1947 rose from $5.7 billion to $8.2 billion, or some 43%. Many undoubtedly have been made on properties at sharply inflated values, but bank risk appears lessened in view of the system of Federal guarantees. Yet it may well be that a more cautious policy may be seen in the future. However, with the new spurt in building activity now under way, such loans will probably continue their uptrend.

Consumer loans undoubtedly are a prime target of the present drive towards loan curtailment. Between mid-1946 and mid-1947 such loans rose 59.5%, or from $3.06 billion to $4.89 billion. For the period from December 31, 1945 to June 30, 1946, the increase amounted to fully 107.5%

In recent years, banks have gone into this field in a big way and there is obviously a good deal of concern over the possibility that the volume of consumer loans may advance sharply with the ending of wartime curbs on consumer credit (Regulation W) after November 1. Undoubtedly a more critical attitude towards expansion in this field may be taken by supervisory authorities, but also towards real estate loans based on inflated values, towards loans to carry excessive inventories and any loans for speculative purposes.

As I See It!

(*Continued from page* 61)

Assembly. Russia immediately denounced it in characteristic vituperative terms. The plan was to establish, for a one year trial, a so-called Little Assembly — a committee of all 57 member nations which would be in continuous session to study problems of international peace. Essentially the proposal was made to offset the widespread disillusionment with the U.N. especially among the smaller nations, with the disappointing failure of the Security Council to act on certain issues because of Russian vetoes. This disillusionment has already gone far. The Little Assembly was to present an opportunity for the U.N. to regain public confidence and the prestige needed for survival. In short, if the Security Council were to be hamstrung by vetoes, it was thought that perhaps the Assembly could serve to mobilize public opinion if it functioned through an interim committee throughout the year.

This of course is the very thing the Soviet Government does not want, hence Russia, main cause of U.N. weakness, promptly denounced the idea as a "flagrant violation" of the U.N. Charter. Russian reaction invites the question: Isn't Soviet action in preventing peace the most flagrant violation of the U.N. Charter, the most cynical disregard of the very obligations that all charter members have solemnly assumed?

Mr. Byrnes' idea of the Charter obligations may yet have to be put to a test. Russia's attack on the Little Assembly plan is added proof of the need for the strongest possible support of the world organization, of the clarification of the Charter obligations along the lines Mr. Byrnes thinks they should work. The ever-strengthening under-current of protest among the nations against having the U.N. torn apart by Soviet recalcitrance appears to call for an early showdown.

Varying Trends In Corporate Profit Margins

(*Continued from page* 69)

volume when pipelines became filled and higher living costs adversely affected consumer buying. Chances are strong, though, that profit margins of this group will tend to widen again as replacement demand shows its force.

Though volume of the retail stores during the current year has been generally higher compared with last year, it will be seen that operating margins have shrunk a good deal. In large part this has been due to widespread and long continued markdown sales of over-priced, inferior or unwanted merchandise. Mindful of experience in former boom times when inventory losses were severe, conservative retail managements have been reducing inventories despite what that meant to profit margins. In contrast to last year's inventory profits occasioned by rising prices, they have been forced to operate on slimmer margins. Now that they are again replacing their stocks, margins should be more normal, until such times as a business recession may set in.

In the steel industry, it will be seen that profit margins for the first half were generally wider than in the corresponding period of 1946, but in large part this was due to strike conditions in the earlier period. More important is the fact that in 1947, margins narrowed in the second quarter compared with the first three months. This shows that the wage-price spiral of late has tended to narrow the operating margins of the steel producers rather generally, though expansion in volume has been noteworthy. Inasmuch as the steel industry is operating close to capacity, and expansion programs can hardly be completed for at least another year, a continuance of volume gains seems unlikely unless achieved through price upping. Hence profit margins probably will not improve materially; if a third round of wage boosts should force another price rise, the latter may no more than compensate for increased costs.

Makers of paper products are enjoying such ideal conditions that operating margins of some concerns have widened rather significantly, though by no means proportionate to large gains in volume. With capacity strained by seemingly endless demand, it has been possible to lower unit costs. Additionally, this industry and many of its components are enjoying benefits from widespread mechanization and improvements in processing. As long as prices remain firm, the operating margins of numerous concerns in this field are likely to remain very satisfactory to the managements, although consumers rather properly might think they should be voluntarily lowered through adjustment of paper prices.

Textile manufacturers show varied trends in margins during the first half of 1947, according to variations in operating problems and demand conditions. Despite earlier predictions of declining activity this year, operations are holding up well. A downtrend in profit margins, however, seems characteristic of American Woolen and Celanese. Cluett Peabody, to the contrary, is enjoying substantially wider profit margins than last year, and the same is true of United Merchants and Manufacturers. Larger royalties from its sanforizing process, involving no increase in over-all expenses, have aided Cluett, while the highly integrated operations of United Merchants have widened margins along with large volume gains.

Lack of space precludes discussion of all the groups included in our tabulation. In studying the table as a whole, it seems rather clear that profit margins generally are tending to narrow. Looking ahead it seems likely that this trend must be expected to continue, although if the wage-price spiral spins for another round, the narrowing process may become temporarily less marked. But when the time comes for an over-all price decline as it ultimately will, managerial efficiency will be put to a severe test in holding up profit margins at the high level currently prevailing in many fields.

BOOK REVIEWS

CARTELS IN ACTION

By George W. Stocking & Myron W. Watkins

The Twentieth Century Fund $4.00

CARTELS IN ACTION is a "case book" on international cartels: a factual account of the origins and operations of cartel arrangements in eight fields in which they have played an important role: sugar, rubber, nitrogen, steel, aluminum, magnesium, incandescent electric lamps, and chemicals.

The trend toward concerted action or collective controls in economic affairs—with or without government sanction—is unmistakable. What have been its results? Did it interfere with our war preparation? Has it restricted production and maintained high prices? What controls are desirable and possible? This book presents a factual basis for answers to these critical questions.

JUST TELL THE TRUTH

The uncensored story of the Russian people today told by the correspondent who travelled freely throughout the country with the direct sanction of Stalin, himself.

John L. Strohm

Scribners $3.50

John Strohm's astounding word-and-picture story of the people behind the Iron Curtain is one of the most remarkable journalistic scoops of recent years. After vainly trying for six months to get permission to enter the Soviet Union, John Strohm sent a cable to Premier Stalin. Ten days later, he was flying to Moscow on the first leg of an amazing journey—free from all censorship and restriction. He went where he pleased from the Baltic to the Black Sea, from Byelorussia to Stalingrad. He talked with the common people in their homes, in their factories, and on their farms. He saw their churches, their schools, and he took hundreds of dramatic photographs perfectly freely and without restraint. The only thing ever said to him about what he should write was the earnest plea that he: "Just tell the truth!"

Writing with verve and human understanding, the author takes you through the vast billowing grain fields, into the bustling industrial centers where sweating workers grimly strain to "over-fulfill the plan," into the colorful public market where butter goes for $12 a pound, shoes for $100 a pair, and a bootblack must pay $120 per month for a license to shine shoes. The problem of sex in the Soviet is discussed in full, as are the various schemes for incentive pay which bear a suspicious resemblance to old-fashioned Capitalism.

John Strohm does not pretend to picture Russia's economic system as the ideal one, but he is sympathetic with the terrific problems that the country faces today and he explains them with clarity and understanding. Above all, he presents convincing proof that the last thing the Russian people want is war with the United States. When you read his book, you will understand why.

THE PROBLEM OF REDUCING VULNERABILITY TO ATOMIC BOMBS

By Ansley J. Coale

Princeton University Press $2.00

This is the sharpest analysis and most precise and straightforward statement yet published on one whole area of the problems of atomic energy. It was written, under the direction of a notable group of social and physical scientists, for the whole range of American citizens. It is addressed in simple, non-technical language to those who are not specialists on the subject yet are concerned with public or industrial policy profoundly affected by it. A sample of the people in this specially interested group might include: investors and industrial leaders debating concentration vs. dispersion of plants, city planners and regional development councils, architects and builders, transportation and communications engineers, devisers of military preparedness, statemen and plain citizens pondering the anxious questions of America's foreign relations.

The book is not written in a defeatist spirit. Although the author realistically examines the situation not only under an effective agreement but also under an ineffective agreemnt or no agrement at all, he shows clearly that reduction of vulnerability as a means of discauraging attack can be wholeheartedly recommended to all nations—and hence is in itself an aid toward a stable agreement.

Mr. Coale does not seek to give final answers but rather, by analysis and synthesis, to show the exact nature of the questions awaiting answer. The book shows his belief in the part that patient intelligence can continue to play as mankind faces the most difficult problem in its history.

THE NEW FIBERS

The first book that tells the complete story of all the new developments in fibers and textiles.

By Joseph V. Sherman and Signe L. Sherman

D. Van Nostrand Co., Inc. $5.00

Here is the absorbing story of the new fibers that are making their way from the headlines into every-day living: the story of Nylon, Vinyon, Fiberglas, Saron, Velon, Aralac, Ardil and others, from their history and development, through their manufacture and processing, complete with adiscussion of their properties and their applications, both established and potential.

THE NEW FIBERS presents the scientific and commercial facts on both the man-made fibers and the chemically improved natural fibers, and describes fully the research efforts now being carried on to develop both of these groups.

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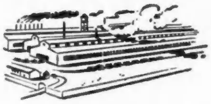
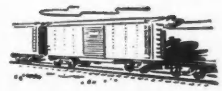

—IRON AND STEEL PRODUCTS COST RAILROADS 47% MORE


—FUEL (COAL AND OIL) COSTS RAILROADS 81.9% MORE


—WAGES & WAGE TAXES COST RAILROADS 75.5% MORE

(Only recently an Arbitration Board raised annual wage costs $50,000,000 on the Pennsylvania Railroad alone.)

RAILROAD FREIGHT RATES MUST KEEP PACE



IT'S UNFAIR TO THE PUBLIC

to deny railroads reasonable increases in freight rates so that service can be improved.

While industry is obtaining higher prices to meet its increased costs, it should not overlook its own need for adequate and efficient railroad service—that the country may continue to grow and prosper.

Industry is prosperous when the railroads are prosperous.

Railroad operating costs have increased more than 65% since 1939. Freight rates have advanced but 28%. An unsound situation which cannot continue.

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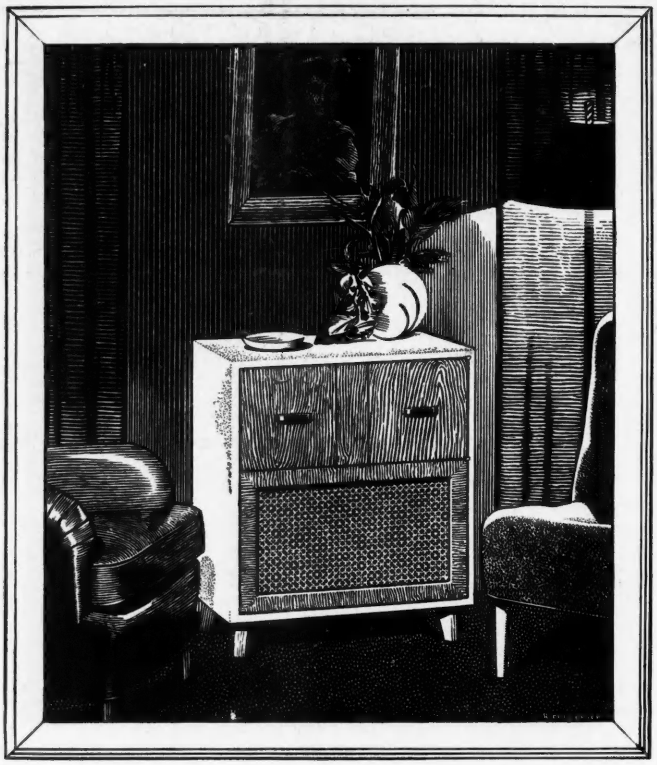

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